City of Lafayette
Lafayette Finance Committee

Findings and Recommendations

October 5, 1992

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Dear Lafayette City Council and the Citizens of Lafayette:

We are pleased to submit for your consideration this report summarizing the findings and recommendations of our review of the City of Lafayette's financial situation and options. We hope that the information and options presented are helpful as you lead the City through these financially challenging times while seeking to maintain the special quality of life we enjoy in Lafayette.

At your request, the Finance Committee was formed to assess Lafayette's current and prospective financial situation, evaluate the effectiveness of current expenditures and revenue generation activities, and recommend financial and operating changes to improve performance or reduce risk. The Committee was made up of four Lafayette residents and business persons, all of whom are, or have been, strategic and financial consultants to private industry.

Our approach has been to utilize fact-based comparisons of current and potential performance with relevant peer cities and private industry best practices. We have not sought to make policy recommendations, but to identify possible actions and provide a clear analysis of the potential financial impact.

In summary, Lafayette's expenditures are the lowest of the six peer cities examined, which is a credit to the oversight of the City Council and City management and to the City's property tax deprived status. Nonetheless, there are a number of opportunities to reduce costs and enhance revenues that could produce substantial saving. The total fiscal effect from the options identified could total $1 million to $2 million annually, but will take several years to fully capture.

The long term financial challenge facing the City is real. Maintaining our existing infrastructure will require higher ongoing levels of investment than has been achievable in recent years. Failure to invest now will necessitate much higher expenditures in the not-too-distant future. Furthermore, continued budget pressure at the State level puts our major revenue sources at risk if not for this year, than certainly in the next few years. The City must plan for these contingencies.

We believe this report represents an important step towards developing the necessary consensus on Lafayette's financial situation and policy options. Uncertainty associated with State funding creates an urgency to act now to overcome barriers and begin to capture the savings we have identified. We look foreword to providing additional assistance as you undertake this important effort.

Very truly yours,

Paul Jansen, Denis Hickey,
Kevin Katari, and Dennis Krentz

September 28, 1992

Chair

Paul Jansen

Mr. Jansen is a Principal in the San Francisco Office of McKinsey & Company. His consulting experiences include work in strategic management, organizational design, marketing, and operations improvements for clients located in the United States, Asia-Pacific, and Europe. He recently returned to the United States after four years in McKinsey's Hong Kong office. Paul's project management experience has ranged from conducting confidential acquisition analysis to leading joint client/McKinsey teams with over 100 members. Paul earned an MBA with honors from Harvard Business School in 1984.

Members

Denis Hickey

President of Hickey and Hill, a management consulting firm specializing in corporate turn-arounds, Mr. Hickey has over twenty-five years experience in general management, operations, finance, and consulting. He brings considerable value to the project because of the "hands on" operating experience he gained by running three troubled companies and his many years as a senior executive in high growth companies. Denis is a CPA and holds an MBA from Denver University and a BS in accounting from Providence College.

Kevin Katari

Mr. Katari is a Business Analyst in the San Francisco office of McKinsey & Company. In this capacity he has focused on general strategy, process improvements, and cost reduction options for a variety of clients. Kevin has worked with client managers to identify cost savings opportunities and to develop implementation plans. Kevin has also conducted corporate performance evaluations and performed a variety of financial analyses. Kevin holds a BA from Harvard University.

Dennis Krentz

Mr. Krentz is a seasoned financial planner and forecasting professional with a strong technical background. As Director of Financial Planning and Analysis for Centex Telecommunications--a rapid-growth communications firm--Dennis has experience in managing transitional organizations. Mr. Krentz holds both a BA and MA in economics from the California State University at Hayward, and has served in a variety of volunteer posts for Lafayette, most recently as the Chairperson of the City's solid waste advisory committee.

Staff

Steven Falk, Assistant City Manager, City of Lafayette.

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Executive Summary

While we have found that Lafayette spends less on services than its peer cities, we also believe that there are significant opportunities for cost reduction and revenue enhancement which should be pursued by City government. This report presents several such opportunities for consideration by the City Council, and is organized around four major sections:

1. **Budget Forecasts for General Fund and Capital Improvement Program.** While recent state cutbacks in local funding are not as severe as originally predicted, a five-year forecast of expected revenues and expenses indicates that the City still faces considerable budget challenges:

    --The forecast of revenues and expenses necessary to maintain current service levels indicates that Lafayette will, between 1993 and 1997, face an annual general fund deficit ranging from $300,000 to $2.0 million per year, depending upon levels of State funding. The City's annual capital improvement and preventive maintenance program is <u>currently</u> underfunded by at least $1.25 million; this figure is expected to grow over time, particularly if the infrastructure is not adequately maintained.

2. **Cost Reduction Analysis.** There are a number of opportunities to reduce expenditures in the short term and several longer term ideas which may result in significant savings and should be aggressively investigated. Key findings include:

    --Lafayette's expenditures are among the lowest of the six peer cities examined in all categories except planning and legal. There are, however, opportunities to reduce general fund expenditures by a maximum of $391,000 within two years by modifying certain operating practices at the departmental level. The biggest opportunities for cost savings lie in eliminating the recreation subsidy and rental payments for the City offices.

    --It is likely that further savings can be achieved over time if general management practices are modified to provide greater incentives for employees to control and reduce expenditures.

    --In the long term, replacing existing fire and police forces with a combined public safety force could result in improved service levels and in savings of as much as $1.3 million per year. An aggressive effort to pursue this significant opportunity should be initiated now, potentially with the other Lamorinda cities.

3. **Revenue Enhancements.** There are opportunities to increase revenues by up to $250,000 per year without raising taxes by collecting planning fees more efficiently and converting currently idle City assets to a revenue-producing status through sale or lease.

4. **Policy Options and Next Steps.** Lafayette is entering a period of significant financial uncertainty. The Council must focus its resources on a number of high impact initiatives if the City is to reduce the amount of new taxes required to maintain existing service and infrastructure levels. Ensuring that the City receives its fair share of state funds is the single most important determinant of whether the City will be able to balance its general fund over the next five years. Major policy considerations and "next steps" are as follows:

   A. **Work hard to garner Lafayette's fair share of property taxes.**

   B. **Aggressively implement the cost reduction and revenue enhancement recommendations identified in this report.** These steps will allow the City to balance its general fund budget under all but the most pessimistic revenue assumptions. If the City fails to capture these savings, particularly the public safety force, or if the pessimistic revenue scenario develops, additional tax revenues and/or service level reductions will be required to balance the general fund.

   C. **Generate additional funds to meet the $1.2 million to $4.8 million annual shortfall in the capital improvement program.** The exact amount of funding required will depend on a detailed engineering review of the City's assets, the surplus generated by the general fund, and how successfully the City captures additional funding from available sources such as Measure C and ISTEA.

   D. **Ensure implementation of the recommendations approved by the City Council** with the following actions:

      1. Direct staff to prepare a detailed implementation plan identifying tasks, expected results, responsibilities, and key implementation milestones;

      2. Pass a resolution adopting the recommendations and directing the City Manager to lead the implementation; and,

      3. Consider whether it would be helpful to have the Finance Committee reconvene on a quarterly basis over the next year to monitor progress and provide additional implementation guidance.

INDEX OF ALL RECOMMENDATIONS

Mission, Issues, and Approach

Mission

To assess Lafayette's current and prospective financial situation, to evaluate the financial effectiveness of the City's cost and revenue management, and to recommend financial and operational changes.

Issues

Specifically, the Finance Committee sought to answer four questions:

1. Can Lafayette maintain its current services and infrastructure without raising taxes, given the economic condition of the State?
2. How can Lafayette reduce costs and what impact will different levels of reduction have on service levels?
3. Does the City have opportunities to increase revenues without raising taxes?
4. Can Lafayette plan and manage more effectively?

Approach

We pursued the following approach to address the major financial issues facing the City:

- Reviewed the operations, both historic and current, of all departments and funds;

- Studied revenues and expenses of six nearby cities which are comparable to Lafayette in size and demographics:

  - El Cerrito
  - Danville
  - Moraga
  - Orinda
  - Pleasant Hill
  - San Ramon

  --To make the data comparable, 1991-92 figures were used in all cases. Fire and insurance costs were omitted from all figures, and department-specific data were sometimes adjusted to approximate an "apples-to-apples" comparison.

  --For these peer comparisons, per capita data were computed to normalize for differences in population. Population, however, is only one variable which defines cities. Local geographic, economic, and perhaps most importantly, property-tax funding status, may also affect the peer city comparisons.

- Researched various revenue improvement and cost reduction alternatives in an attempt to make current activities more efficient;

- Forecasted revenues and expenses for the next five years and defined assumptions. Determined what financial hurdles and risks the City will face in order to plan for them now;

- Defined findings and made recommendations.

Section 1
Budget Forecasts

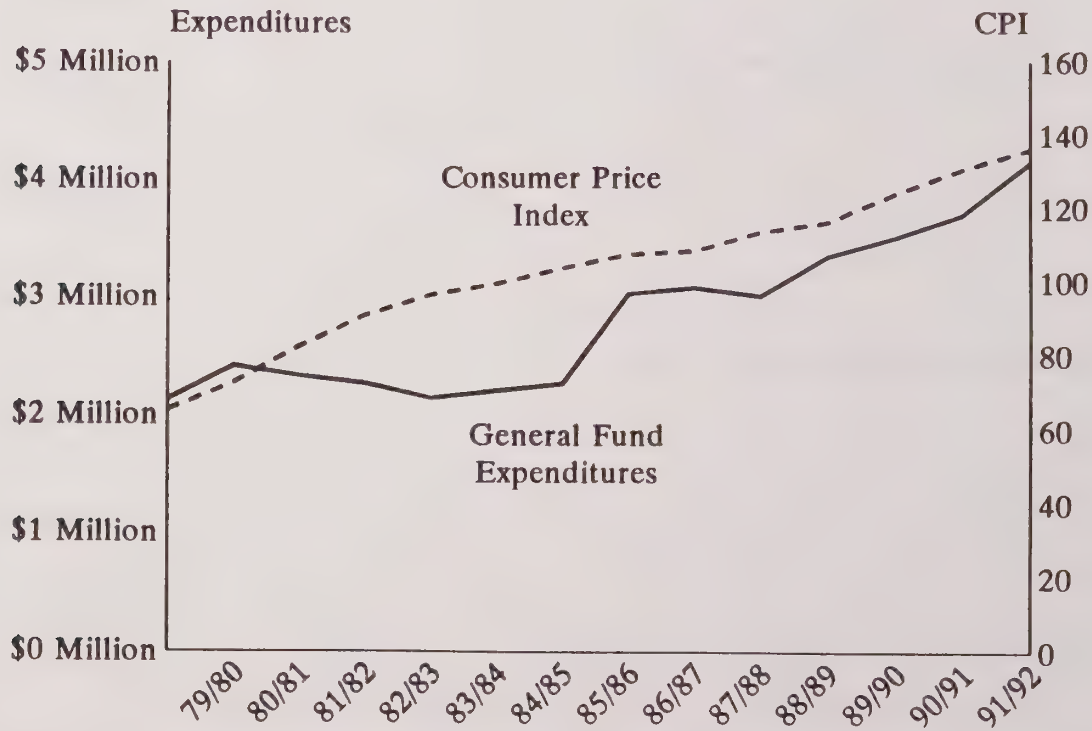
1.0 Budget Forecasts for the General Fund and Capital Improvement Program

1.1 General Fund

A. History

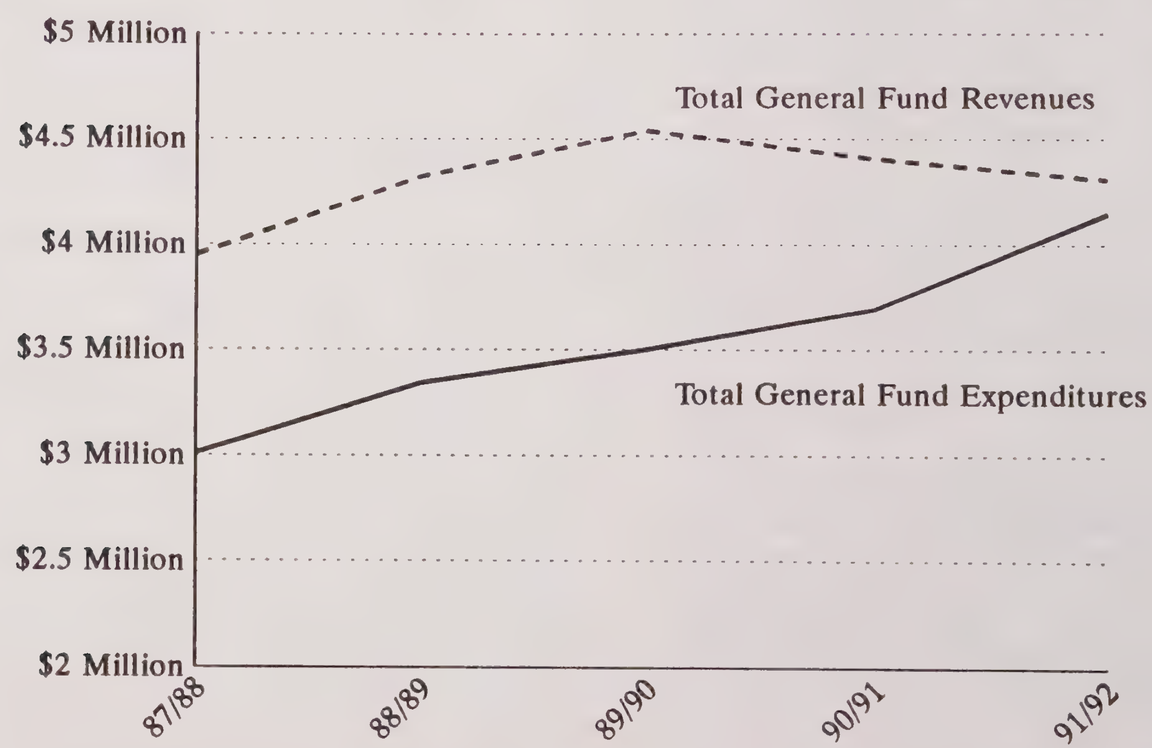
1. From the period 1978/79 through 1991/92, General Fund expenditures have remained flat in real terms, growing at an average annual rate of 5.7% vs. an inflation rate of 6.3%.

General Fund Expenditures
1979 - 1992



2. During the last five years, however, demand for local services and the availability of general fund revenues persuaded the City Council to approve increased growth in services delivered. The average annual rate of increase in expenditures was 6.6% during the period from 1987/88 to 1991/92 versus inflation of 4.6% during the same period. Revenue growth matched expenditure growth through 1989, but has recently decreased due to the poor economy and cutbacks from the State. Historically, general fund surpluses have been diverted to fund capital improvements.

General Fund Revenues and Expenditures
1987 - 1992



3. New positions and services added during the last several years include:

<u>Positions</u>

Police Sergeant

Youth Diversion Officer

Half-Time Police Secretary

Parking Enforcement Supervisor

Community Center Caretaker (former contract)

Half-Time Senior Center Aide

Administrative Analyst (funded by Measure C)

Half-Time Accounting Clerk

Half-Time Secretary Receptionist

Administrative Intern

<u>Services</u>

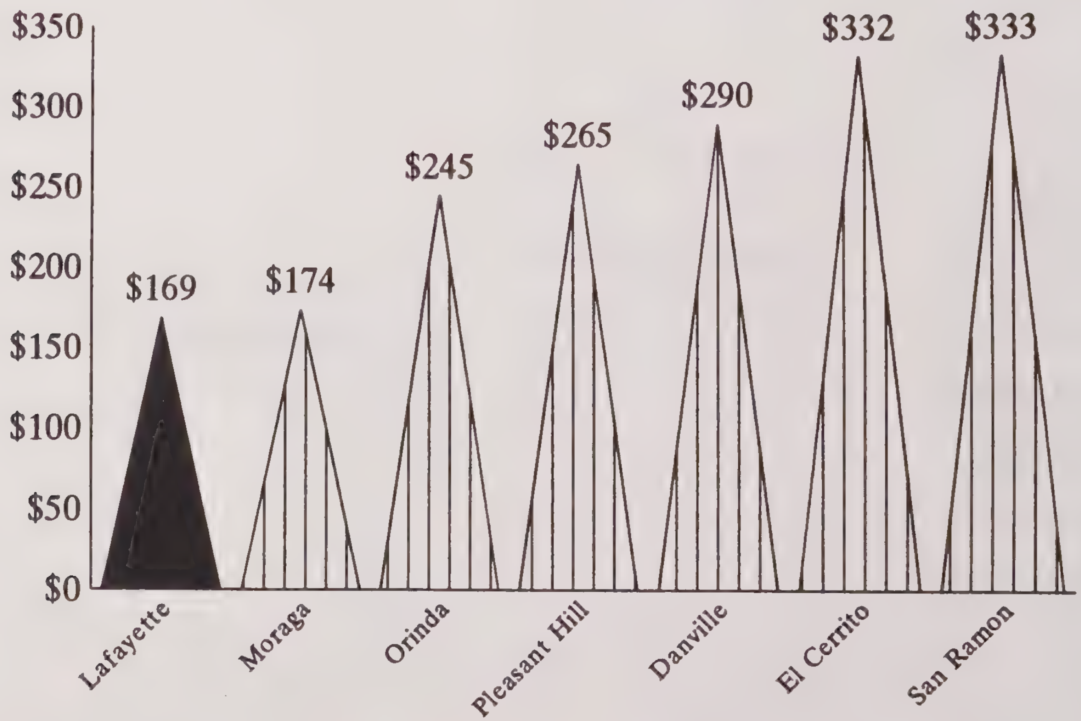
General Plan Revision
Radar-unit speed enforcement
Measure C oversight
DUI cost recovery program
Increased legal activities e.g., EBMUD lawsuit
In-house payroll (former contract)
Community Park Master Plan
Disaster preparedness (former contract)
Injury prevention program
Television inspection of storm drains
Lafayette Vistas Newsletter
Stricter smoking ordinance
Fix-O-Grams
Parking meters and lockboxes
Pollution discharge study
Business registration program
AB 939 (waste management) oversight
Staff liaison to Chamber of Commerce

New Commissions:

--Solid Waste Advisory Commission
--Parklands Blue Ribbon Task Force
--General Plan Advisory Commission
--Finance Committee
--Business Commission
--Downtown Redevelopment Committee

4. In spite of these new positions and services, the City appears relatively efficient and Lafayette citizens are still minimally served compared to other cities. In 1991/92 Lafayette spent fewer dollars per capita on generally funded activities than any of six comparable cities.

1991-92 Per Capita Expenditures
General Fund

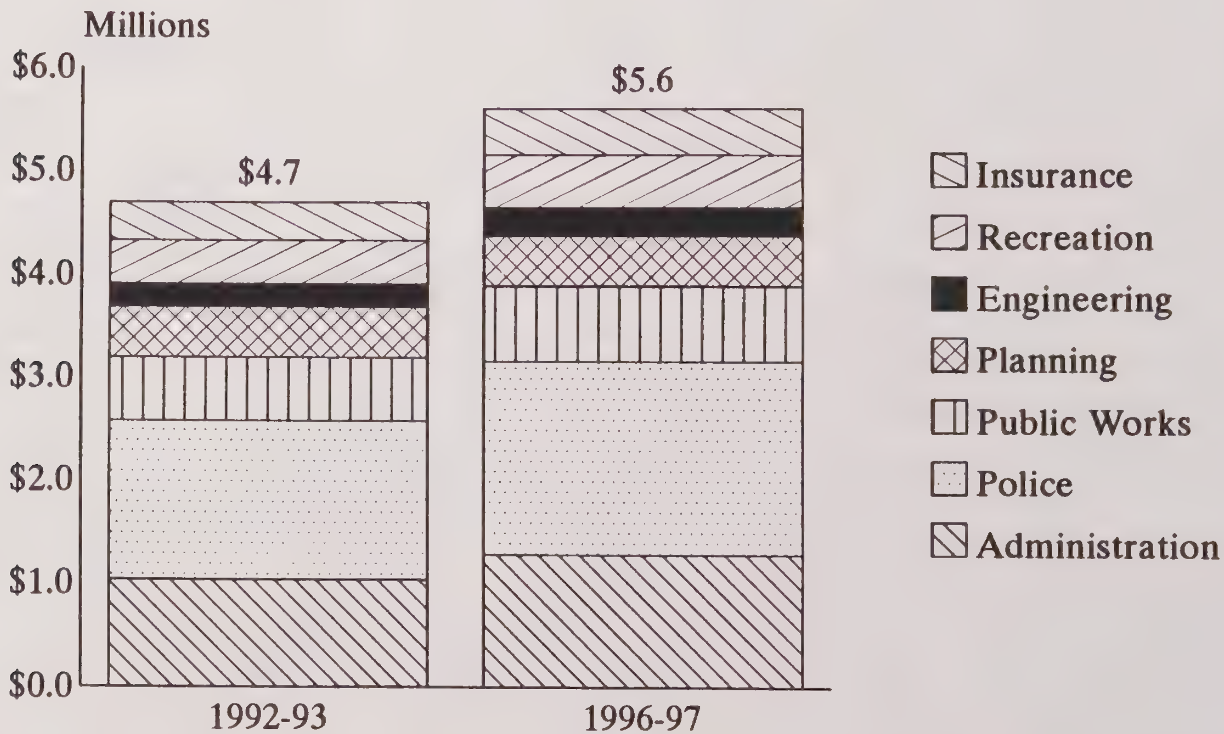


1.1 General Fund Shortfall

B. Forecast

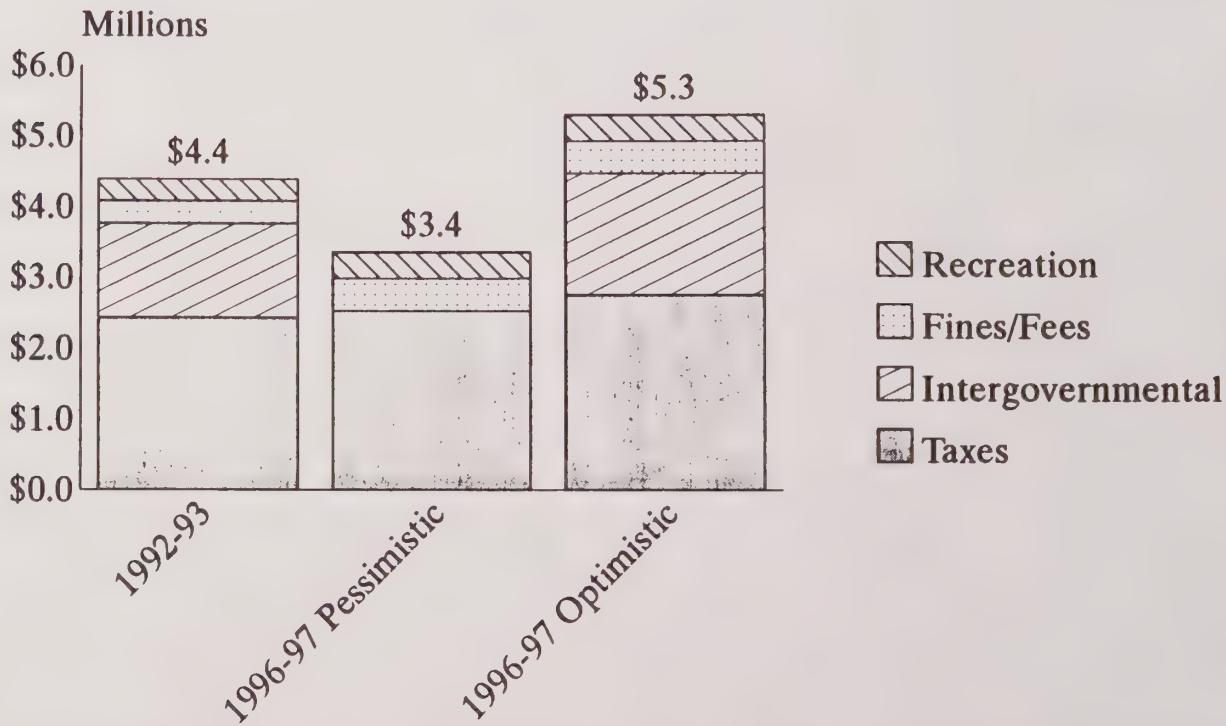
1. General fund expenditures are projected to increase at an annual rate of 5% for the next five years. This is comparable to the actual rate for the last 15 years.

Forecast of General Fund Expenditures 1992 to 1997



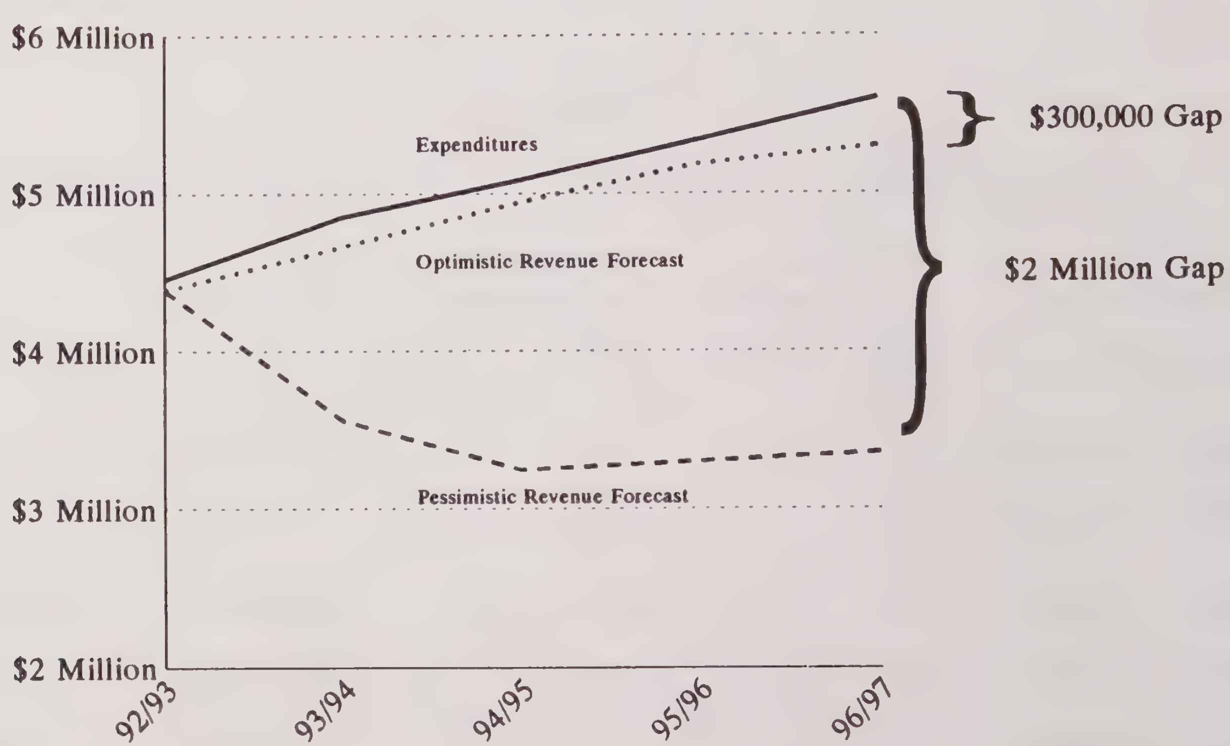
2. The City depends upon "intergovernmental" revenues received from or controlled by the State for 33% of its general funding. Unfortunately, these revenues are highly uncertain and likely to decline due to California's unfavorable budget situation. We have forecasted two revenue scenarios: (1) an "optimistic case", where the City continues to receive vehicle license and property tax revenues according to historic trends, and (2) a "pessimistic case" scenario, where vehicle license and property tax revenues dry up over two years. Although it is impossible to predict exactly how Lafayette's revenues will behave, we believe that these two scenarios bound the likely range of possibility. See Appendix 1 for detail.

Forecast of General Fund Revenues
1992 to 1997



3. When combined, the expenditure and revenue forecasts indicate that Lafayette will, between 1993 and 1997 face an annual budget deficit ranging from $300,000 to $2 million. This forecast suggests that major productivity, cost reduction programs, and perhaps, development of new revenue sources will be necessary.

Five Year Forecast of General Fund Revenues and Expenditures



1.2 Capital Improvement Program

A. FINDINGS

1. Based upon current replacement costs, the City's infrastructure is valued at approximately $115 million. See Appendix 2, "City Engineer's Report on Public Infrastructure Needs" for detail.

2. Table A, below, details the value and age of City improvements. Using these figures, we define a range of suggested spending levels necessary to maintain the City's capital infrastructure. A minimum annual amount appears to be $2.25 million.

Table A
Capital Improvement Funding Requirements

Item	Estimated Replacement Cost (A)	Estimated Expected Life (Years) (B)	Estimated Average Age of Asset (Years) (C)	Annual Capital Requirement Low (A/B)	Annual Capital Requirement High (A/(B−C))
Storm Drains	$50,000,000	50	35	$1,000,000	$3,333,333
Pavement	$37,500,000	50	25	$750,000	$1,500,000
Curbs, Sidewalks	$20,000,000	50	25	$400,000	$800,000
Rec. Facilities	$5,000,000	100	40	$50,000	$83,333
Traffic Signals	$2,500,000	50	15	$50,000	$71,429
Total Value:	$115,000,000	Range of Capital Requirement:		$2,250,000	$5,788,095

3. The City's storm drain system serves as an example of problems related to the capital improvement program that may emerge during the next five years:

- Unlined, corrugated metal storm drains make up a large fraction of the City's drainage system, and are estimated to last, at best, about 30 to 40 years.

- Since most of the City's storm drains were installed 30 to 40 years ago, they represent a large immediate capital liability for the community.

- Funds typically available for the capital improvement program are often restricted and cannot be used for storm drain replacement.

- Since most of Lafayette's storm drains have not been replaced or improved over time, problem areas such as the Martino Road storm drain are likely to occur with increasing frequency.

- A winter of "normal" precipitation after years of drought may produce an abundance of road and drain problems. Drain repairs become significantly more costly on a yearly basis when they are not maintained.

- Continued failure to adequately replace and improve storm drains will result not only in increased maintenance costs but may represent significant legal liability.

4. Currently, the City devotes gas tax and Measure-C return-to-source funds to the capital improvement program. These sources total to roughly $500,000 annually. Table B suggests that, even with the addition of other grants and one-time sources, the capital improvement program will be underfunded by at least $1.25 million annually over the next five years.

Table B
Funding for Capital Improvements, 1992–97

Range of Capital Requirements (see Table A):	$11,250,000	to	$28,904,475
Expected Funding:			
Gas Tax	$1,500,000		
Measure C Return–To–Source	1,000,000		
Measure C @ St. Mary's Road	1,300,000		
ISTEA @ Pleasant Hill Road	1,200,000		
	$5,000,000		
Range of Expected Cumulative Shortfall:	$6,250,000	to	$23,904,475
Range of Average Annual Shortfall:	**$1,250,000**	to	**$4,780,895**

Section 2
Cost Reduction Analysis

2.0 Cost Reduction Analysis.

Lafayette's expenditures are low relative to peer cities. There are, however, a number of opportunities to reduce expenditures in the short term, and several longer term (i.e., two years or more to implement) ideas which would result in significant savings and should be aggressively investigated. These recommendations are summarized in the following table:

Table C
Cost Reduction Recommendations

Recommendation	*Annual Savings* *Minimum*	*Maximum*
Phase out recreation subsidy	$100,000	$200,000
Pursue lower cost options for City Offices	60,000	130,000
Consider contracts for certain Public Works operations	10,000	25,000
Restrict requests for City Attorney services	0	15,000
Review clerical staffing levels with City Manager	0	15,000
Investigate new ordinances for property–owner cleanups	5,000	10,000
Restrict City Attorney attendance at public meetings	5,000	10,000
Coordinate intergovernmental relations	Not Quantified	
Adopt a new budget system	Not Quantified	
Implement employee incentive system	Not Quantified	
SUBTOTAL:	$180,000	$405,000
Create public safety force	0	1,300,000
GRAND TOTAL:	$180,000	$1,705,000

2.1 **Peer City Cost Comparisons**

A. FINDINGS

1. Lafayette's expenditures are among the lowest of the six peer cities examined in all categories except planning and legal. The graphs on the following pages indicate per capita spending in major categories for Lafayette and six peer cities.

2. 1991/92 expenditures in planning and legal activities are higher than peer cities due to special but not on-going programs, i.e., the revision of the general plan and the EBMUD lawsuit.

1991/92 Per Capita Expenditures by Activity

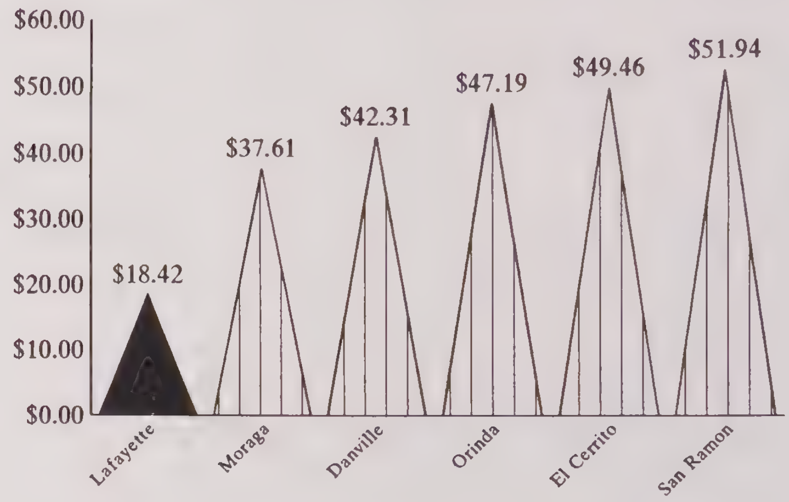
Police Services

Public Works

1991/92 Per Capita Expenditures by Activity

Administration

Recreation*



*Gross expenditures not net of revenues.

Engineering

Planning

Source: 1991/92 Municipal Budgets

1991/92 Per Capita Expenditures by Activity

City Attorney

City Council

Source: 1991/92 Municipal Budgets

2. Per capita and absolute staffing levels are lower than comparable cities for virtually all departments.

Table D
1991/92 Comparative Staffing Analysis

NUMBER OF FULL-TIME EMPLOYEES

DEPT.	LAFAYETTE	DANVILLE	EL CERRITO	MORAGA	ORINDA	PLEASANT HILL	SAN RAMON
Administration	7.00	16.75	12.00	3.50	7.00	18.75	15.00
Police	15.50	28.75	44.50	13.00	16.25	52.00	30.50
Public Works	5.00	21.00	14.00	5.50	4.25	13.00	29.00
Planning	5.00	8.25	4.00	5.50	6.60	5.00	9.00
Engineering	3.50	8.60	3.00	Contract	4.00	4.00	18.00
Recreation	4.25	5.00	16.00	4.00	8.50	District	17.50
TOTAL:	**40.25**	**88.35**	**93.50**	**31.50**	**46.60**	**92.75**	**119.00**
STAFF PER CAPITA:	**0.0017**	**0.0028**	**0.0041**	**0.0020**	**0.0028**	**0.0029**	**0.0034**

Source: 1991/92 Municipal Budgets

3. Lafayette's employee salaries are, on average, 25% lower than those in peer cities.

Table E
Survey of 1991/92 Municipal Salaries

Position	Average Lafayette Salary	ACTUAL OR TOP STEP SALARIES: Orinda	Moraga	Danville	El Cerrito	San Ramon	Average of Other Cities	Lafayette Compared to Average
Accounting Clerk	$24,024	$23,000	$28,834	$35,844	$28,392	$29,568	$29,128	−21.2%
Accounting Manager	35,172	46,600		54,528		55,752	52,293	−48.7%
Administrative Aide	27,798	34,200	28,834	38,412	33,744		33,798	−21.6%
Administrative Analyst	37,752	36,000		54,528		53,100	47,876	−26.8%
Associate Planner	43,092	41,900	35,672	52,632	47,664	55,752	46,724	−8.4%
Assistant City Mgr	53,760	66,200		77,304	74,004	86,496	76,001	−41.4%
City Clerk	36,348	44,700		50,412	34,630	53,100	45,711	−25.8%
City Engineer	63,348	74,700		73,272	56,124	78,456	70,638	−11.5%
City Manager	82,680	82,932	85,296	95,400	85,452	90,000	87,816	−6.2%
Comm. Center Caretaker	18,720	23,500				15,600	19,550	−4.4%
Department Secretary	26,820	29,375	28,834	31,728	32,100	39,624	32,332	−20.6%
Junior Engineer	30,744	45,200					45,200	−47.0%
Maintenance Worker	24,990	22,100	26,182	31,728	26,904	31,044	27,592	−10.4%
Park and Rec Director	46,944	58,800	40,710	64,476	77,700	86,496	65,636	−39.8%
Parking Enforcement Sup.	22,656			31,728			31,728	−40.0%
Planning Director	55,200	77,724	67,944	62,688	56,124	78,456	68,587	−24.3%
Planning Technician	30,288		32,266	41,376		45,876	39,839	−31.5%
P.W. Superintendent	43,704	43,100	51,600			55,752	50,151	−14.8%
Secretary Receptionist	22,107	23,550	26,182	28,872	25,716	35,940	28,052	−26.9%
Senior Center Aide	15,492		18,902				18,902	−22.0%
							Overall:	−24.7%

Note: The City of Pleasant Hill did not submit information in time to be included in this analysis.

2.2 Departmental Recommendations

A. City Attorney

1. FINDINGS

a. The City's decision to contract for City Attorney services is appropriate for a City of Lafayette's size.

b. Legal expenditures are higher than in peer cities. The prime drivers of the difference appear to be:

--Usage (hours billed), rather than the rate charged for those hours. The City Attorney's rates are only slightly higher than those of other cities examined.

--While the City has instituted some controls, ease of access to the City Attorney and a lack of accountability for expenditures encourage use. Currently just about anyone associated with the City can call and request City Attorney services. For example, it is not uncommon for members of the City's volunteer commissions to request service from the City Attorney without authorization from the City Manager.

--Consistent with the lack of accountability for use, legal bills are not reviewed in detail to ensure the appropriateness of specific items.

2. CITY ATTORNEY RECOMMENDATIONS

a. **Restrict requests for City Attorney services to City Council members, department managers, and the City Manager.**

b. **Introduce clear budget accountability for attorney expenditures in each functional department's annual budget.** Have the City Attorney submit bills indicating charges for each department, to be reviewed by the appropriate department manager. The process currently used to review landscape architect expenses may be an appropriate model to adopt in this instance.

c. **Restrict City Attorney attendance to Council and Commission meetings where legal counsel is necessary.** Set agendas to minimize time City Attorney must be present.

d. **Continue to benchmark legal fees (rates and usage) against peer cities. If fees are found to be out of line, open the contract to competitive bidding.**

2.2 B. Police

1. FINDINGS

a. Lafayette citizens currently spend close to $5 million on police ($1.5 million) and fire protection ($3 to $3.5 million). This compares with a total general fund budget of $4 million. Note that fire protection costs are funded out of property tax allocated to the County and are not part of Lafayette's general fund.

b. Police costs, which are directly under the control of the City are low relative to most peer cities because of the relatively modest level of protection provided and the City's decision to purchase these services from the County, thereby capturing many benefits of scale. Fire protection costs, however, represent a major expenditure category that is potentially out of proportion to Lafayette's needs.

c. Public safety forces, which combine police and fire protection activities have been successfully operating in a number of Bay Area communities for up to 40 years. Rohnert Park and Sunnyvale are notable examples of how significant savings and/or service improvements can be achieved.

d. Lafayette may have the opportunity to reduce total fire/police expenditures by as much as $1.3 million while increasing police coverage by creating a public safety force. This force would replace services now contracted for from the County, provided the City can negotiate to retain a share of existing taxes now collected by the County in return for assuming fire protection responsibilities. See Table F on next page.

POTENTIAL SERVICE IMPROVEMENT AND COST REDUCTION ASSOCIATED WITH IMPLEMENTING A PUBLIC SAFETY FORCE

	Rohnert Park	Lafayette	Sunnyvale
Population	36,326	23,200	117,229
Police per thousand capita (number)	1.3	0.6	1.04
Firemen per capita (number)	1.3+ volunteers	1.2-1.4	1.0+ volunteers
Cost per capita (dollars)	$149	$206	$217

Potential total cost reduction at about $1.3 million if Lafayette achieves Rohnert Park cost levels and an approximately 100% increase in police coverage

Issue – to capture these savings, Lafayette must negotiate recovery of county revenues now spent on fire

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2.2 B. 2. POLICE RECOMMENDATIONS

a. **Aggressively pursue the creation of a Public Safety Force** by creating a special task force to:

--Identify issues and further refine savings estimates and service improvement potential associated with a public safety force. The task force should consider options that include a Lafayette-only force and a combined Lafayette-Moraga-Orinda force.

--Investigate previous precedents for tax recovery from the County and/or the Fire District in return for assuming fire protection responsibility. If appropriate, the City should begin negotiations with the County to identify ways to share potential savings and ensure that local stations are not closed prematurely, reducing Lafayette's flexibility to retain services and capture savings.

--Task force members should include representatives of the Lafayette City Council, the Contra Costa Fire Protection District, the Lafayette Police Department, the City Manager, and several private citizens.

2.2 C. Recreation

1. FINDINGS

a. The recreation department offers a wide range of services. Many classes, such as aerobics, dog obedience training, karate, computer learning, and children's services, are in direct competition with the offerings of private firms located in the region.

b. There are many non-revenue producing activities and services that are currently provided by the recreation department at the request of the City Council and the Parks and Recreation Commission. Examples include parks and trails management, the senior recreation center, and the meals-on-wheels program.

c. The subsidy to the recreation department totals approximately $200,000 per year and consists of three components:

i. Coverage of the recreation fund deficit, projected at $113,000 per year for 1992-93;

ii. Recreation-related administrative expenditures (in the City Manager and Finance/Personnel departments) that are paid for out of the General Fund, estimated at $50,000 to $70,000 for 1992-93.

iii. Subsidized space at the Lafayette Community Center. The recreation department pays $28,000 in rent to the General Fund (this amount appears to be well below the market value of the space). The recreation department, in turn, rents out a portion of the Community Center space for approximately $45,000 per year (to Televents, the League of Women Voters, Friends of the Lafayette Library, and private renters).

2. RECREATION RECOMMENDATIONS

a. Do not subsidize programs that are offered by the private sector. In times of tight budgets, the recreation department should not provide services at a loss when the same services are offered

privately. Classes such as aerobics, for example, should be provided only if they represent a revenue generating opportunity for the City.

b. **Phase out the $200,000 annual subsidy to zero over the course of two years** (i.e., set the subsidy at $125,000 for 1993-94, $65,000 for 1994-95, and $0 for 1995-96). Under this plan, the City would eventually charge the recreation department $70,000/year for accounting, personnel, and city management services.

c. **Give the Recreation Director full profit and loss responsibility for the recreation department.** The Recreation Director should have the freedom and responsibility to determine the level of all recreation-related expenditures and to make all recreation-related decisions including staffing levels and marketing areas and costs. If the Director is to compete against the private sector, then he/she should have wide latitude to shape and manage the recreation program. We believe that such empowerment will lead the department to:

- Increase offerings of high-demand classes such as kindergym and tiny tots;
- Eliminate low-demand and revenue-losing classes;
- Charge full market prices for classes offered competitively by the private sector, such as computer learning, aerobics, and certain children's services.
- Extend Community Center hours to accommodate the schedules of Lafayette residents (e.g., offer more high-demand classes on evenings and weekends).

d. **Decide which programs are for the "general good" and subsidize them individually from the General Fund.** Clarify for the Parks and Recreation Commission and department the amount of subsidy available and the types of services which the Council believes are for the "general good", such as CPR instruction, babysitting and earthquake preparedness workshops. Likewise, the general fund should compensate the recreation department for activities that the Council suggests be held at the Community Center such as City Council meetings, the Senior Center, and Meals-on-Wheels. The recreation department should be compensated at fair market value for the lost opportunity to use the space for profit-making classes.

2.2 D. <u>Public Works Department</u>

1. FINDINGS

a. The department is often in a reactive mode. The department has made good efforts, for instance, to anticipate storm drain and weed abatement problems but still tends to react to special requests from neighborhoods, interest groups, Council and Commissions as they arise.

b. Some ongoing maintenance activities are rightfully the responsibility of private property owners or other governmental agencies. Most weed abatement activity--either for roadways or walkways, or around traffic signs--is simply a result of unimproved landscaping encroaching in the public rights of way. The cost of such abatement runs into the tens of thousands of dollars per year.

--Slide problems on Pleasant Hill Road (a result of soil problems on East Bay Regional Park District property), for instance, have continued for over five years, at an annual cost to the City in excess of $5,000. Leaf cleanup in Lafayette Valley Estates costs the City approximately $6,000 per year.

c. Opportunities may exist to contract out key recurring maintenance projects in the City at savings over current fully-loaded costs. One example is the maintenance of the Pleasant Hill medians, although other examples are likely to surface when fully investigated.

2. PUBLIC WORKS RECOMMENDATIONS

a. Set up strategic schedules and programs to identify recurring maintenance problems and ways to resolve them. Set goals and objectives for the Public Works crew members which allow them to focus on longer term, rather than neighborhood, or partisan, issues.

b. Direct the Public Works Superintendent to investigate ordinances or special assessment districts which would require private property owners to abate plant growth and droppings that encroach on public rights of way.

c. **Investigate projects that could be more efficiently delivered as a contracted project, analyze the current full cost to the City of that project, and solicit outside bids.** The final decision should be dependent on a contracted cost that includes the cost to the City of managing the contractor.

2.2 E. Clerical Staffing

1. FINDINGS

a. The City offices, with three full time secretarial employees (four persons) serving the main office, appears to have adequate clerical staffing yet still has a problem maintaining its filing and records system.

b. When dialing the City of Lafayette, it is confusing for the public to see three separate phone numbers for administration, planning, and engineering. It seems illogical and inefficient to have three phone lines for the rather small administrative offices.

2. RECOMMENDATIONS

a. **Review clerical staffing and productivity levels with the City Manager.** As part of this process, the Manager should review filing and records retention practices. It appears that efficiencies may be had through consolidation of staff supervision or, perhaps, staff reductions. Annual savings could total up to $15,000.

b. **Have one receptionist handle all reception services, allowing the department secretaries more time to focus on departmental duties.**

c. **Close the City offices at lunch time,** thus eliminating the need for daily reception backup. This also would free up time for the clerical staff to concentrate on departmental duties and filing.

2.2 F. City Offices

1. FINDINGS

a. The City pays approximately $110,000 per year to rent approximately 4,000 square feet of office space for City administration and 1,700 square feet for police at Desco Plaza ($19.30 per square foot per year). Under the current contract, the rent will increase to $130,000 per year in 1994 ($22.80 per square foot per year).

b. At the Community Center, approximately 3,500 square feet of space are rented out to Televents, Friends of the Lafayette Library, and the League of Women Voters. These organizations pay a total of $31,500 per year in rent (on average, $9.00 per square foot per year).

2. CITY OFFICE RECOMMENDATIONS

a. **Pursue lower cost options for housing the City Offices.** Two options which should be explored in priority order are:

i. Move to the Community Center. Clearly the most efficient option is to move City administration into the 3,500 square feet of space at the Community Center that is currently rented out to other organizations.

- The City already owns the building, so there would be no outflow of principal, interest, or rent expense.
- The Community Center Caretaker would provide custodial services at no extra cost to the City.
- Combining administrative and recreation staff could result in minor clerical economies of scale.
- Having administrative offices proximate to the Council chambers would be advantageous.

- If certain grant-restrictions could be mitigated, the police could also be moved to the Community Center. Otherwise, they would continue to occupy their current space at Desco Plaza or find other, cheaper space in the downtown area.

After moving and remodelling costs, this option could save $60,000 to $130,000 annually. Annual savings will increase in future years as Desco Plaza rents increase.

ii. <u>Purchase City Offices.</u> A second, less-desirable option would be to purchase City offices. Commercial real estate space in Lafayette is currently selling for $80 to $100 per square foot. If space were purchased and financed over twenty years at a 6% fixed rate, the annual cost would be $7 to $9 per square foot plus maintenance (compared to the $19.30 per square foot that the City currently pays). Moreover, office space costs would be fixed, as opposed to escalating based on rent increases. Finally, after twenty years, the City would own the space outright and payments would cease.

This option could potentially save $70,000 per year less maintenance costs and the cost of services currently provided by Desco Plaza. Future savings would be even greater.

b. The City should begin studying the feasibility of each of these options as soon as possible in preparation for the option to terminate the current lease in August, 1994.

- **Table G on the next page summarizes the fiscal effect of moving the City offices to the Community Center.**

TABLE G

FISCAL EFFECT OF
MOVING CITY OFFICES
TO COMMUNITY CENTER

	ADMINISTRATION GAIN/(LOSS)	ADMIN + POLICE GAIN/(LOSS)
1994/95 Desco Plaza Rent	$93,100	$130,000
Televents Studio	($0 to $22,642)	($0 to $22,642)
League of Women Voters	($0 to 4,440)	($0 to 4,440)
Friends of Lafayette Library	($0 to 4,440)	($0 to 4,440)
NET SAVINGS:	$61,578 to $93,100	$98,478 to $130,000

NOTE: Actual loss associated with the Televents lease will depend upon ongoing franchise negotiations with Televents. Actual loss associated with other leases will depend upon other available space and negotiations.

2.3 **General Management.**

A. Intergovernmental Issues

1. FINDINGS

a. Intergovernmental issues have become increasingly important to Lafayette, and are likely to become more consequential in the near and middle term. They should be recognized as a major area of concern for the City Council, since they influence City revenues and costs to a large extent.

b. While the City of Lafayette is very dependent on costs and revenues passed down by the State and County, no formal mechanism exists to work directly, consistently, and in an ongoing manner with the State.

c. . The result is that elected representatives in higher agencies are more likely to react to pressures from other cities and at the State or County levels rather than act in ways consistent with Lafayette's interest.

d. While election-year pressure from local citizens would likely prove to be most efficient in influencing elected officials, Lafayette residents appear to be largely uninformed regarding important matters such as the City's property-tax deprived status and the fluctuations in the City's share of motor vehicle fees and traffic fines.

e. The City Council's prudent decision in 1991/92 to publish the Lafayette Vistas was offset by the Council's recent 1992/93 decision to cancel publication of the newsletter. If anything, the City needs to develop--in addition to the Vistas--more and better mechanisms to advise the citizens of Lafayette on intergovernmental matters.

2. INTERGOVERNMENTAL RECOMMENDATIONS

a. Assign the City Manager full responsibility for coordinating intergovernmental relations, with support and action (where required) by the City Council.

b. **Reinstate funding for Lafayette Vistas in the final 1992-93 budget, to be published at least bi-annually.**

c. **Develop other effective means of communicating with and mobilizing citizens** such as:

- Holding press conferences and issuing press releases;
- Reinstating neighborhood Council meetings;
- Writing more op/ed pieces and letters to the editor for local newspapers;
- Forming issue-specific task forces to lobby on the City's behalf.

B. City Management

1. FINDINGS.

a. The City budgets on a year-to-year basis and, to date, has engaged in little long term financial planning. Given the economic climate, we believe that a one year planning cycle is insufficient to run the City and, in some areas (capital outlays, for instance) it is incompatible with long range objectives.

b. When reviewing the annual budget, the City Council customarily compares proposed line items to amounts actually spent in previous fiscal years. This system encourages a use-it-or-lose-it approach to spending, with incentives to spend funds on lower-priority goods and services. The line item review weakens managers' authority to run their business in the most efficient manner--in fact, it effectively relieves them of this responsibility.

- Over the past ten years, more than a dozen cities in California have adopted so-called expenditure control budgets (ECB's) which eliminate line-item review by the City Council and create incentives for managers to save rather than spend. ECB's free up managers to run their operations in the most efficient manner and legislators to concentrate on higher priority issues. With an ECB, managers concentrate on department balances rather than line items, allowing them to respond to changing circumstances. This system is more consistent with how private industries manage budgets, with the proviso that significant variances to the budget ultimately be justified to the City Manager and, perhaps, Council. This approach is also amenable to incentive programs which place emphasis on accomplishing pre-determined results rather than perpetuating the current system. See Appendix 3 for more information.

c. The City Council prefers to sign all checks, giving the City Manager limited check-writing authority (a cumulative maximum of $1,500 every two weeks). This seems to be an extremely low signature authority level which prohibits the manager from acting independently. Likewise, the limit increases the workload of the City Council.

d. In a typical year, the spread between pay increases for outstanding and average employees may be 3.5%. This differential is low by most business standards.

e. No formal or informal program exists to encourage employees or department managers to increase productivity, reduce costs, or increase revenues. Several cities, including Sunnyvale and Visalia, have used bonuses to reward employees and teams of employees for surpassing pre-determined goals for service quality, cost reduction, and customer satisfaction. It is important to note that successful goal-oriented programs, however, require management organization, commitment, and authority.

f. The City does not set specific performance targets, such as "number of rings before telephone is answered", "number of recreation participants", or "reduction in sick time hours".

g. The City has an at-will employment arrangement with the City Manager. We find that at-will employment arrangements, because of their inherent job insecurity, tend to discourage independent judgement and strong opinion. They also promote short term, rather than long term, management decisions and planning. In addition, the City Manager position demands a long learning curve. This experience is lost if the employee opts to find a more secure position. The City has had four City Managers over the past ten years. This turnover represents a real cost to the City which should be recognized and, where possible, abated.

2. RECOMMENDATIONS

a. Adopt a revised budget system which includes:

- A five year financial plan;
- City and departmental performance targets;
- Management authority and responsibility to make spending decisions and achieve performance targets;

- An emphasis on bottom-line, rather than line-item, results. Department heads should be responsible for explaining significant variances from the budget and allowed the flexibility to move resources and spend money in order to maximize efficiency;

- An elimination of line item review by City Council.

b. **Revise the check-writing policy so that Council focuses on major issues and managers are empowered and encouraged to make independent decisions.**

c. **Review the merit pay plan and negotiate wider gaps between relative performance levels. Adopt an incentive compensation system which is based upon achieving and rewarding individuals and teams of employees for reaching pre-determined goals.** As indicated above, we recommend a "key results" program, whereby two or three goals are set semi-annually for each individual/team. Bonuses are awarded to those who reach their goals from a pool authorized by the City Council. Money to pay for these bonuses comes from savings and revenue increases accrued from the key results process. Note that bonuses serve as effective monetary performance incentives without incurring large structural budget increases.

--The City Manager should be responsible for defining the program, receiving necessary approvals from the City Council, implementing and monitoring the program, and negotiating key results with department managers.

--Finance Committee recommendations that are adopted by the City Council, for instance, could become "key results" upon which bonuses are paid.

--Employees should be rewarded monetarily for suggesting and implementing cost savings programs.

d. **Enter into an employment contract with the City Manager of one to three years that encourages the Manager to concentrate on achieving major and long-term Council objectives.** We also recommend a severance package that increases with tenure to a cap of six to twelve months (currently the City offers a fixed three month severance protection). This gives the Council an inexpensive fix for new managers who don't work out, but provides longer-term managers more

security to act independently. One option would be to give the manager a month of severance protection for each year of seniority with the City.

- **According to a 1987 survey by the International City Management Association, over 40% of all City Managers in the United States have employment contracts.**

C. Commissions

1. FINDINGS.

a. Lafayette makes extensive use of volunteer commissions and committees. Currently there are seventeen active committees, with at least two more being considered for formation. A count of the City's commission directory indicates that there are currently more than 160 volunteer commissioners and committee members serving the City.

b. The costs of these commissions and committees to the City in terms of staff, materials, and space has not been calculated and is not monitored by staff or the City Council. We believe that the costs are substantial.

c. Commissions and committees are supervised by the City Council and do not receive direction from the City Manager. Aside from annual joint meetings, no formal process exists by which the City Council reviews the performance of, or necessity for, individual commissions or committees.

d. Commissions and committees have varying charges and responsibilities, some of which may no longer be relevant or necessary. "Sunset" provisions are rarely designated. Some commissions and committees might be effectively combined.

2. RECOMMENDATIONS

a. **Roll all Council and Commission costs, including staff, space, and materials, into one budget program.** This will allow the City Council to review the relative size of the City's volunteer program to other general fund activities and the capital improvement program during the annual budget review process.

b. **Review the missions of and need for all City commissions and committees.** Eliminate, refocus, and re-energize the volunteer system where necessary. Apply sunset provisions where appropriate.

Section 3
Revenue Enhancements

3.0 Revenue Enhancements

There appear to be opportunities to increase City revenues by up to $250,000 per year without raising taxes by increasing planning fees to recover full costs and converting currently idle City assets to revenue-producing status through sale or lease. The fiscal effect of these recommendations are summarized in Table H, below.

Table H
Revenue Enhancement Recommendations

Recommendation	*Estimated Annual Savings* Minimum	Maximum
Convert certain properties into revenue producing assets	$0	$200,000
Adopt a revised rate and fee schedule for planning operations	0	50,000
TOTAL:	$0	$250,000

3.1 Asset Utilization

A. FINDINGS

1. The City of Lafayette owns several properties which do not produce any revenue, including the following:

Site	Size	Est. Value
El Nido Ranch Road @ Via Nueva	3.1 acres	$300,000
Christensen site on Olympic Boulevard	7.6 acres	$1,000,000
Mt. Diablo Ct. @ Mt. Diablo Blvd (Blodgett)	0.4 acre	$375,000
First Street properties (2)	0.5 acre total	$200,000
Prouty-Norseman sites	0.6 acre	$900,000

These properties currently act as less liquid forms of the general fund reserve.

2. If all properties were sold (for approximately their total value of $2.8 million), the annual interest/rental income from the properties could total $200,000 per year.

3. Since these properties are all currently vacant, an informed sale/lease analysis to determine the highest and best use for each property would result in both improvements to the neighborhoods and increased revenues for the City.

B. ASSET UTILIZATION RECOMMENDATIONS

1. **Conduct a sale/lease analysis for each property to determine the highest and best use from the City's perspective.** Issue RFP's which delineate certain zoning restrictions and preferred uses for certain properties.

2. **Convert properties into revenue generating assets unless they are being held for a <u>specific</u> near-term purpose.** This can be accomplished through sale or lease.

3.2 Planning Fees

A. FINDINGS

1. For FY 1992-93, the City has budgeted $500,000 to pay for the Planning function, broken out into the following rough expenditure categories:

- $200,000 for general planning services
- $200,000 for review of specific planning applications
- $100,000 for the general plan revision (one-time cost)

2. The City anticipates that it will collect $150,000 in fees for specific planning services during the same period. The current net cost to the City to provide specific planning services, then, is $50,000. Thus, it is likely that one or both of the following conditions exist:

i. Hourly rates are not high enough;

ii. Staff does not capture all hours worked on behalf of planning clients, such as meeting attendance.

3. Though the City is not large enough to support a comprehensive cost accounting system, the organization would benefit from daily time cards in hourly increments for those areas which charge fees for service.

B. PLANNING FEE RECOMMENDATIONS

1. **Calculate and adopt a revised rate and fee schedule for planning and engineering which incorporates all direct and indirect costs associated with service delivery.** Establish a nexus between the services provided and the true cost of providing those services; attempt to recoup 100% of cost for projects which selectively benefit subsections of the City population. Benchmark fees against peer cities to test for reasonableness.

--Staff has already begun this process.

2. **Conduct a review of the City's planning approval process.** It appears that applicants are subject to higher levels of review in Lafayette than in other cities. Consider simplifying the approval process, resulting in reduced staff hours and planning fees.

3. **Require that Planners and Engineers fill out daily time cards to better track project costs.** If a timecard regimen is established, the City will collect fees more accurately.

4. **Limit Planning and other fee-for-service personnel attendance at Council and other public meetings.**

Section 4
Next Steps

4.0 Recap, Recommendations, and Next Steps.

The Lafayette City Council must focus its resources on a number of high impact initiatives if the City is to reduce the amount of additional taxes required to maintain existing service and infrastructure levels. To aid this process, we have identified a comprehensive set of General Fund planning scenarios and imperatives in Section 1, cost reduction opportunities in Section 2, and revenue enhancement recommendations in Section 3. Table I on the next page summarizes the cumulative effects of the recommendations proposed in this report and their relation to the economic scenarios we have identified.

4.1 General Fund Recommendations

A. Ensuring that the City receives its fair share of state funds is the single most important determinant of whether the City will be able to balance its general fund over the next five years. Table I on the next page confirms that Lafayette should:

1. **Ensure that the property tax/trial court funding transfer is not reduced or eliminated by initiating a program of concerted lobbying and follow-up with State legislators.**

2. Recognizing that, at its maximum, the trial court funding provisions will yield at best a third of the property taxes that the City should fairly receive, **Lafayette should actively pursue other legislative and legal avenues to gain the City's full fair share of property taxes**. This could total approximately $2 million in additional revenues.

3. **Monitor long term objectives by reviewing progress quarterly at City Council meetings.**

B. **Aggressively implement the $236,000 of cuts previously identified by Council as well as the cost reduction and revenue enhancement opportunities identified in Sections 2 and 3 of this report**. Recognizing the State's tenuous budget situation, it is very possible that Lafayette's collections from the State will decline in the near future, even if determined efforts to maintain or increase funding are made by City leadership. By aggressively implementing the cost reduction and revenue enhancement recommendations identified, the City can produce a balanced general fund budget under all but the most pessimistic revenue assumptions.

Table I
Cumulative General Fund Surplus/Deficit
1993 to 1997

	EXPENDITURES		
REVENUES	Status Quo	Implement Recommendations	Implement Recommendations plus Public Safety
Optimistic	−$1.1 million	$465,000	$4.4 million
Flat	−$2.0 million	−$435,000	$3.5 million
Pessimistic	−$7.7 million	−$6.1 million	−$2.2 million

--The City Council should assign overall responsibility for implementing the recommendations herein to the City Manager and request that monthly status reports be provided to the Council. The most important initiatives are:

Action	**Degree of Control by Lafayette**	**Other Agencies/Bodies/Factors Which May Affect Outcome**
Implement a public safety force	~20%	Consolidated Fire District, Contra Costa County Sheriff
Increase revenues from assets	~70%	Planning Commission, General Plan restrictions
Increase Planning Fees	100%	State law
Move City offices to the Community Center	~80%	Planning and zoning codes, General plan requirements, State and federal grant restrictions
Phase out the recreation subsidy	~80%	Competitive market, fixed costs
Develop new budgeting and cost savings incentive systems	100%	None
Implement the $236,000 in cuts identified by Council	100%	None

C. If the City fails to capture these savings, particularly the public safety force, or if the pessimistic revenue scenario develops, additional tax revenues and/or service level reductions will be required to balance the general fund. To prepare for this possibility, the City should:

1. **Develop a contingency plan for reducing services necessary to eliminate a potential shortfall of $1 million**. Since direct labor costs constitute approximately 55% of the general fund budget, substantial reductions in head-count and, therefore, services will be required.

2. **When all cost reduction opportunities have been exhausted, alternative revenue sources tapped, and further service reductions deemed unacceptable, consider a temporary tax such as the utility tax currently under consideration by Lafayette voters.**

4.2 Capital Fund Recommendations

Unless the City captures all potential savings identified in this report--including the Public Safety consolidation--additional funds will be required to maintain Lafayette's existing infrastructure. The exact amount of funding required will depend on a detailed engineering review of the City's assets, the surplus generated by the general fund, and how successfully the City captures additional funding from available sources such as Measure C and ISTEA. To ensure that the City does not allow its infrastructure to decline at the expense of future generations, we recommend that Lafayette:

A. **Prepare a detailed long-range capital expenditure program based on an objective review of the City's assets.**

- San Jose, for instance, has inspected every piece of infrastructure it owns and set up a schedule for maintenance, renovation, and reconstruction. The idea is to do each piece of work at the moment when it can re-establish maximum useful life at the most cost-effective price. Sunnyvale has completed a similar study, indicating what is has to invest each year to keep the streets from deteriorating to the point where costs would skyrocket.

B. **Identify potential state, federal, and county funding sources for capital projects of the type required by Lafayette in the next 5 to 10 years and mount aggressive programs to capture these funds for the City.**

C. **To the extent that a shortfall remains, institute new dedicated funding sources for capital improvements. For example, special assessment districts, utility taxes, or parcel taxes could be imposed with the proceeds being deposited into a sinking fund with restrictions that the funds be used only for capital asset maintenance.**

- If approved by voters, transferring the proceeds of the two-year utility tax to the capital improvement program would allow the City Council to fund immediate capital maintenance needs while it determines how to fund the larger capital improvement program on a more permanent basis.

4.3 Next Steps

To ensure that the City staff receives clear direction regarding the implementation of these recommendations and to provide a means by which to track implementation status and results, the City Council should:

A. **Direct staff to prepare a detailed implementation plan identifying tasks, expected results, responsibilities, and key implementation milestones.** Progress on high impact initiatives should be reviewed with the City Council on a monthly basis by the City Manager.

B. **Pass a resolution adopting the recommendations and directing the City Manager to lead the implementation efforts.** Make a significant part of the Manager's incentive compensation contingent upon successful implementation.

To this end, two documents have been prepared for City Council consideration:

- Matrix describing tasks, responsibilities, and suggested timelines for their accomplishment.

- City Council resolution adopting the recommendations and matrix and directing the City Manager to coordinate implementation.

C. **Consider whether it would be helpful to the Council and staff to have the Finance Committee reconvene on a quarterly basis for the next year to monitor progress and provide additional implementation guidance.**

City of Lafayette
Finance Committee
Matrix of Major Tasks, Responsibilities, and Timelines

		1992		1993							
Recommended Action	*Responsibility*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*93/94*	*94/95*
Work to gain full property tax allocation	City Council										
Develop service reduction contingency	City Manager										
Develop new funding source for capital program	City Council										
Pursue creation of public safety force	City Council										
Review mission/need for all commissions	City Council										
Enter into contract with City Manager	City Council										
Review infrastructure, prepare long–term plan	Council, Manager										
Phase out recreation subsidy	City Manager										
Pursue lower cost option for City Offices	City Manager										
Adopt revised budget/incentive system	City Manager										
Convert properties to revenue–producing assets	City Manager										
Implement departmental recommendations	Dept. heads										

Review progress, report to Council	Finance Committee										

Resolution Adopting Recommendations of Finance Committee

BEFORE THE CITY COUNCIL OF THE CITY OF LAFAYETTE
IN THE MATTER OF:

Adopting the Finance Committee's Final Report and Matrix of Tasks and Responsibilities; Directing City Manager to Coordinate implementation of Recommendations	))))))	RESOLUTION XX-92

WHEREAS, the Lafayette City Council created the Lafayette Finance Committee in June, 1992 to investigate expenditure and revenue trends in the City and make recommendations to the City Council; and

WHEREAS, the City Council has reviewed and discussed the recommendations put forth in the final report of the Lafayette Finance Committee; and

WHEREAS, the City Council has also reviewed the attached matrix describing tasks, responsibilities, and projected timelines associated with the recommendations;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Lafayette does hereby:

1. Adopt the recommendations proposed in the report;

2. Adopt the implementation schedule proposed in the report;

3. Designate the City Manager to oversee implementation of all recommendations included in the report per the timelines indicated on the implementation schedule; and

4. Direct the Finance Committee to reconvene on a quarterly basis for FY 1992/93 to monitor progress toward achieving these recommendations and report on such progress on a regular basis to the City Council.

PASSED AND ADOPTED by the City Council of the City of Lafayette at a regular meeting of said Council on October 5, 1992 by the following vote to wit:

AYES:
NOES:
ABSTAIN:
ABSENT:

APPROVED:

____
Donald L. Tatzin, Mayor

ATTEST:

____
Susan M. Jusaitis, Deputy City Clerk

Appendices

Appendix 1
Five Year Forecasts

CITY OF LAFAYETTE
FINANCE COMMITTEE
FIVE-YEAR GENERAL FUND FORECAST -- OPTIMISTIC CASE

19-Sep-92

REVENUES	1992-93	1993-94	1994-95	1995-96	1996-97	Five Year Increase/ (Decrease)	Average Annual Rate of Change
SALES TAX	$1,731,000	$1,800,240	$1,872,250	$1,947,140	$2,025,025	$294,025	4%
OTHER TAX	700,000	$707,000	$714,070	$721,211	$728,423	28,423	1%
UTILITY TAX	0	0	0	0	0	0	NA
PROPERTY TAX SUBVENTION	516,000	645,000	774,000	903,000	903,000	387,000	0%
INTERGOVERNMENTAL	817,000	817,000	817,000	817,000	817,000	0	0%
FINES	60,000	$63,000	$66,150	$69,458	$72,930	12,930	5%
INTEREST & RENT	70,000	70,000	70,000	70,000	70,000	0	0%
FEES & CHARGES	150,000	$157,500	$165,375	$173,644	$182,326	32,326	5%
PARKING FEES	35,000	80,000	125,000	125,000	125,000	90,000	NA
OTHER	3,500	$3,500	$3,500	$3,500	$3,500	0	0%
RECREATION	306,382	$321,701	$337,786	$354,675	$372,409	66,027	5%
GRAND TOTAL	$4,388,882	$4,664,941	$4,945,131	$5,184,627	$5,299,614	$910,732	

EXPENDITURES	1992-93	1993-94	1994-95	1995-96	1996-97	Five Year Increase/ (Decrease)	Average Annual Rate of Change
CITY COUNCIL	$40,040	$40,440	$40,845	$41,253	$41,666	$1,626	1%
LEGAL SERVICES	137,200	150,920	166,012	182,613	200,875	63,675	10%
CITY CLERK	90,867	95,410	100,181	105,190	110,449	19,582	5%
CITY MANAGER	188,998	198,448	208,370	218,789	229,728	40,730	5%
FINANCE/PERSONNEL	159,278	167,242	175,604	184,384	193,603	34,325	5%
NON-DEPARTMENTAL*	292,263	299,570	330,634	338,900	347,372	55,109	3%
COMMISSIONS	121,358	127,426	133,797	140,487	147,511	26,153	5%
POLICE	1,539,310	1,616,276	1,697,089	1,781,944	1,871,041	331,731	5%
PUBLIC WORKS	610,710	641,246	673,308	706,973	742,322	131,612	5%
PLANNING**	498,116	449,522	440,498	462,523	485,649	(12,467)	5%
ENGINEERING	228,832	240,274	252,287	264,902	278,147	49,315	5%
RECREATION	418,599	439,529	461,505	484,581	508,810	90,211	5%
INSURANCE	369,000	387,450	406,822	427,164	448,522	79,522	5%
GRAND TOTAL	$4,694,571	$4,853,751	$5,086,953	$5,339,702	$5,605,695	$911,124	
SURPLUS/DEFICIT	($305,689)	($188,810)	($141,822)	($155,075)	($306,081)		

*$23,000 annual increase in building rent in 1993-94.

**Reduction of budget in 1993-94 and 1994-95 reflects completion of General Plan

CITY OF LAFAYETTE
FINANCE COMMITTEE
FIVE-YEAR GENERAL FUND FORECAST -- PESSIMISTIC CASE

19-Sep-92

REVENUES	1992-93	1993-94	1994-95	1995-96	1996-97	Five Year Increase/ (Decrease)	Average Annual Rate of Change
SALES TAX	$1,731,000	$1,748,310	$1,765,793	$1,783,451	$1,801,286	$70,286	1%
OTHER TAX	700,000	707,000	714,070	721,211	728,423	28,423	1%
UTILITY TAX	0	0	0	0	0	0	NA
PROPERTY TAX SUBVENTION	516,000	0	0	0	0	(516,000)	0%
INTERGOVERNMENTAL	817,000	408,500	0	0	0	(817,000)	0%
FINES	60,000	63,000	66,150	69,458	72,930	12,930	5%
INTEREST & RENT	70,000	70,000	70,000	70,000	70,000	0	0%
FEES & CHARGES	150,000	157,500	165,375	173,644	182,326	32,326	5%
PARKING FEES	35,000	80,000	125,000	125,000	125,000	90,000	NA
OTHER	3,500	3,500	3,500	3,500	3,500	0	0%
RECREATION	306,382	321,701	337,786	354,675	372,409	66,027	5%
GRAND TOTAL	$4,388,882	$3,559,511	$3,247,674	$3,300,938	$3,355,874	($1,033,008)	

EXPENDITURES	1992-93	1993-94	1994-95	1995-96	1996-97	Five Year Increase/ (Decrease)	Average Annual Rate of Change
CITY COUNCIL	$40,040	$40,440	$40,845	$41,253	$41,666	$1,626	1%
LEGAL SERVICES	137,200	150,920	166,012	182,613	200,875	63,675	10%
CITY CLERK	90,867	95,410	100,181	105,190	110,449	19,582	5%
CITY MANAGER	188,998	198,448	208,370	218,789	229,728	40,730	5%
FINANCE/PERSONNEL	159,278	167,242	175,604	184,384	193,603	34,325	5%
NON-DEPARTMENTAL*	292,263	299,570	330,634	338,900	347,372	55,109	3%
COMMISSIONS	121,358	127,426	133,797	140,487	147,511	26,153	5%
POLICE	1,539,310	1,616,276	1,697,089	1,781,944	1,871,041	331,731	5%
PUBLIC WORKS	610,710	641,246	673,308	706,973	742,322	131,612	5%
PLANNING**	498,116	449,522	440,498	462,523	485,649	(12,467)	5%
ENGINEERING	228,832	240,274	252,287	264,902	278,147	49,315	5%
RECREATION	418,599	439,529	461,505	484,581	508,810	90,211	5%
INSURANCE	369,000	387,450	406,822	427,164	448,522	79,522	5%
GRAND TOTAL	$4,694,571	$4,853,751	$5,086,953	$5,339,702	$5,605,695	$911,124	
SURPLUS/DEFICIT	($305,689)	($1,294,240)	($1,839,279)	($2,038,763)	($2,249,821)		

*$23,000 annual increase in building rent in 1993-94.

**Reduction of budget in 1993-94 and 1994-95 reflects completion of General Plan

Appendix 2
City Engineer's Report: Public Infrastructure Needs

CITY OF LAFAYETTE
DEPARTMENT OF ENGINEERING

MEMORANDUM

DATE: September 8, 1992

TO: Lafayette Finance Committee

FROM: Mark Lander, City Engineer

SUBJECT: Funding for Capital Improvement Needs

Attached is an analysis of the City's funding needs for capital improvement. In summary, the analysis shows needed funding to be at least $1.5 million per year for the next 10 years, with a funding shortfall of over $1.0 million for each year.

Please contact me at 284-1951 if you have any questions on the above.

ML:mrg
820dh

PUBLIC INFRASTRUCTURE FUNDING NEEDS

The City of Lafayette is responsible for maintenance of numerous public infrastructure works. The largest single item is repair and reconstruction of street pavement; followed by the storm drainage system. Other improvements include traffic signals, sidewalks and curbs, and recreation facilities (the Community Center is the most significant item).

The total value of these improvements is estimated at approximately $115 million. The cost was estimated using the attached analysis. Continual repair, replacement and upgrade of improvements is needed due to improvements "wearing out", becoming obsolete, or becoming inadequate to handle increased service demands. Maintenance and improvement programs should be performed in a way that maximizes improvement life, minimizes "spikes" in the annual budget, minimizes public liability and disruption of service to the public.

Obviously, the City needs to budget sufficient funds each year to accomplish the above goals. Although actual costs will vary from year to year depending upon actual work, the revenue which provides funds will stay somewhat consistent from year to year; therefore, an "average" annual capital budget should be determined.

Based on the value and expected life to public improvements, the following table shows the funds needed to keep pace with infrastructure repair and replacement:

Item	Improvement Value	% of Annual Repair/Replacement Costs	Annual Cost
Pavement	$ 37,500,000	2%	$ 750,000
Sidewalks, Curbs, Gutters, Walkways	$ 20,000,000	1%	$ 200,000
Storm Drains	$ 50,000,000	1%	$ 500,000
Recreational Facilities	$ 5,000,000	1%	$ 50,000
Traffic Signals	$ 2,500,000	2%	$ 50,000
	$115,000,000		$1,550,000 +10% Contingency $1,700,000

The annual budget for capital repair and replacement of existing improvements is estimated at $1,700,000. The following should be noted:

1. The City is currently $700,000 behind in scheduled pavement repair. Eliminating this backlog over the next five years would increase annual expenditures to $1,850,000, which would drop after five years to $1,700,000.

2. The annual pavement maintenance cost assumes that the Pavement Management Program in the 1984 Harris study will be followed. Otherwise, annual maintenance costs will ultimately increase to 5% of pavement value, or $1,875,000.

3. Costs for new improvements are not included. "New" improvements are defined as separate, distinct facilities not now in existence, such as a new traffic signal. In reality, however, many improvements can be incorporated into replacement projects at nominal cost due to economy of scale and with prudent planning and design.

It should be noted that the above analysis does not take into account additional costs the City may incur as a result of liability for defective infrastructure. For example, a pothole may damage a vehicle's suspension or tires, or (worse) injure a bicyclist or motorcyclist. An inadequate drainage facility may result in structural or flood damage to a residence. In these cases, the City will bear the cost of not only fixing the defective infrastructure but also settling the cost of damage or injury. The cost of this liability exposure can be significant; the City currently owns two lots off First Street as a result of buying out property owners whose homes became uninhabitable as a result of the deteriorated storm drain. More recently, the City has encumbered costs in the amount of $40,000 in order to provide interim drainage improvements on Martino Road, Stanley Boulevard, Walnut Drive, and White Oak Drive; this is in addition to the cost of permanent improvements. As an example, had the cost of duplicate interim and permanent improvements on the Martino Road storm drain been eliminated, an additional $25,000 would be available for other uses.

It should also be noted that, since the State has experienced a five-year drought, the full impact of deferred maintenance has not been seen. Severe pavement and drainage problems will likely occur when normal rainfall patterns return.

Existing Funding Sources

Long term guaranteed funds available for capital work are limited to approximately $200,000 in Measure C return-to-source funds and $300,000 in Gas Tax funds, or $500,000 per year. Significant one-time fund sources such as ISTEA (Federal) funds for Pleasant Hill Road will add approximately $1.4 million. Using an average cost of $1,800,000 needed per year over the next 10 years, total expenditures would be $18,000,000. Available funds are $500,000 per year or $5,000,000, plus $1,400,000 in ISTEA funds. This leaves a deficit of $11,600,000, or $1,160,000 per year. It is possible that additional grants, developer exactions, or neighborhood contributions may reduce this amount by 5-10%. The ability of outside funding sources to complete specific projects should not be underestimated; however, these sources are limited and sporadic, and should not be counted on to make up the entire funding shortfall.

INFRASTRUCTURE MAINTENANCE COST WORKSHEET

Pavement

Existing Pavement Value ~$37,500,000 ÷ 13,500,000/square feet^2 ~$2.75/square feet^2
No Preventative Maintenance Treatment Assume 20 year pavement life; reconstruct every 20 years @ 2.75 for 100 years = $13.75/square feet^2/100 years

With P.M. Program

Slurry Seal every five years @ year 5, 10, 15, 20, 30, 35, 40, 45, 55, 60, 65, 70, 80, 85, 90, and 95 @ $0.06/ft.^{2} x 16 = $1.00/ft.^{2}/100 years
Overlay every 25 years @ year 25, 50, and 75 @ $0.50/ft.^{2} x 3 = $1.50/s.f.
Reconstruct @ year 100 @ $2.75/ft.^{2}
Total Cost: $5.25/ft.^{2}/100 years (NOTE: Because the age and past treatment of streets varies, some streets need to be reconstructed each year. On the average, 1% of the pavement needs to be reconstructed each year.)

Annual P.M. cost: $5.25 ÷ 100 x 13,500,000 ft.^{2} = $708,750

Compare to 1989 estimate of $610,000/year
use 5% inflation 1985-89 and 0% 1989-92 = 29% increase = $762,250; use $750,000/year

No. P.M. Program: $13.75 ÷ 100 x 13,500,000 = $1,856,250

In order to keep pavement maintenance from falling behind, under P.M. program 2% of pavement investment ($750,000) needs to be invested per year, compared to 5% (1,875,000±) without P.M. program.

Every year that work is deferred, it must be made up next year, plus 5% of deferred work (untreated pavement loses life @ 5%/year). Therefore, if work is deferred in year 1 ($750,000), required work in year 2 is $750,000 + $750,000 + $37,500 = $1,537,500.

Based on current budget constraints, the maintenance backlog will increase as shown on the attached sheet. Deferred costs increase from a current deficit of $716,000 to a deficit of <u>$3,780,000</u> in 1997.

In order to keep pace with future maintenance needs, ongoing annual maintenance would need to be increased to $750,000/year. In addition, the existing deficit would need to be amortized over, say, a five-year period at an additional cost of $165,548. Funding needs would be $915,000 for the next five years (1993-1998), thereafter dropping to $750,000.

All costs are in 1992 values. Actual future funding amounts will need to be adjusted to allow for inflation or construction cost changes.

The value of pavement management systems to stretch maintenance dollars is widely understood throughout the field of public works, to the extent that use of a system by a

local agency will likely be a requirement for receipt of State or Federal funds in the near future.

Other Infrastructure

The City has approximately 50 miles of storm drain. Assuming an average total cost for the system of $200/l.f., the value of the system is approximately $50 million. Assuming a 100-year life on the system, approximately $500,000 needs to be put into the system for replacement each year. Average life of the existing system is probably 30-40 years, which means that replacement of portions of the system made out of corrugated metal pipe (with a life span of 40 years) is due.
The value of curb, gutter, sidewalk, and walkways is estimated at $20,000,000 (assuming that one third of the street miles have sidewalks and one half has curb and gutter). Annual maintenance and replacement cost is $200,000.

The City's traffic system, approximately 20 traffic signals @ $125,000 each, is an investment of $2,500,000, requiring annual replacement at $50,000, assuming a 50 year life for equipment.

The Community Center represents an investment of $5,000,000, requiring annual replacement of $50,000.

Total Costs

Annual capital replacement costs for pavement, drainage, traffic systems, and recreational facilities total $1,690,000, which should be rounded to $1,850,000 allowing a 10% contingency, for the next five years. This could be reduced to approximately $1,700,000 year after elimination of pavement maintenance backlog in 1998. Note that the above costs are for maintaining the existing infrastructure, and do not include new improvements.

As a check to the above analysis, the Capital Improvement Program was reviewed to prioritize unfunded projects. Projects were broken out in terms of high priority (need to be completed immediately, or within 5 years), medium priority (need to be completed the following 5 years), and low priority (no deadline). Costs for unfunded high priority projects is $4,000,000, or $800,000 per year. When added to pavement costs, the annual cost is $1,715,000, very close to the $1,850,000 estimated using the previous approach. Costs for medium priority projects is $5,900,000, or 1,171,000 per year. When added to pavement costs, the annual cost is $1,921,000, somewhat higher than the $1,700,000 estimated using the other approach, but of the same order of magnitude. The specific projects are listed on an attached exhibit.

The second approach is admittedly an unscientific, subjective approach based on a cursory review of projects. However, it does suggest that capital of expenditures of at least $1,700,000 or higher are needed over the next 10-15 years to eliminate a backlog of capital needs.

Pavement Management Schedule
1992-98

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Forecast Budget	$360,000	$535,000	$750,000	$750,000	$750,000	$750,000
Actual Budget	$100,000	$ 60,000	$150,000	$150,000	$100,000	$500,000*
Annual Deferred	$260,000	$475,000	$600,000	$600,000	$650,000	$250,000
Previous Year Deferred +%5	$465,750	$752,588	$1,288,967	$1,983,415	$2,712,586	$3,530,715
Cumulative Deferred	$716,750	$1,227,588	$1,888,967	$2,583,415	$3,362,586	$3,780,715
Funding Level Need to Eliminate Backlog (Includes $165,000 annual reduction of existing backlog)		$700,000	$915,000	$915,000	$915,000	$915,000**

$435,000 deferred in previous years

1991-92

Need:	$1,100,000
Mt. Diablo Blvd.	($ 500,000)
Moraga Road	($ 60,000)
Happy Valley Road	($ 75,000)
Glenside Drive	($ 20,000)
Broadmoor Court	($ 10,000)
	$ 435,000 = Starting Deferred Amount

* Assumes all available funds go toward pavement work
**Annual costs drop to $750,000 after 1998

Previous Year Expenditures:

1984-85	$910,000
1985-86	$810,000
1986-87	$800,000
1987-88	$775,000
1988-89	$800,000
1989-90	$600,000
1990-91	$600,000
1991-92	$665,000

Attachment 2

TEN YEAR CAPITAL IMPROVEMENT NEEDS

1993-98

Sweet Drive Slide Repair	$ 15,000
Reliez Valley Road Retaining Wall	30,000
El Curtola Boulevard Drainage Improvements	350,000
Moraga Boulevard Drainage Improvements	50,000
Martino Road Storm Drain	75,000
Community Center Paint	10,000
Brook Street Storm Drain	75,000
Rohrer Drive Storm Drain	50,000
Sundale/Mosswood Storm Drain, Phase II	175,000
St. Mary's Road, Moraga to Topper	250,000
Mountain View Drive Improvements	200,000
Los Palos Drive Storm Drain	50,000
Solana Drive/Acampo Drive/Hamlin Road Improvements	275,000
Moraga Road Safety Improvements	225,000
Hidden Valley Road Improvements	270,000
Woodland Way Improvements	60,000
Brookdale Count Storm Drain	170,000
School Street Sidewalk	50,000
Martino Road Retaining Walls	200,000
St. Mary's Road, Topper to Glenside	225,000
Boyer Circle/Dewing Avenue Improvements	175,000
Reliez Valley Road, Pleasant Hill to Silverdale	275,000
Traffic Signal Upgrades, Mt. Diablo Blvd.	175,000
Las Trampas Creek Repair, St. Mary's Road at Wallabi Court	125,000
Mt. Diablo Storm Drain, Happy Valley to Dolores	125,000
Diablo Circle Storm Drain	25,000
St. Mary's Road Slide Repair at Driftwood Drive	200,000
Doreen Way Storm Drain	175,000
Total:	$4,080,000

Attachment 3

1998-2002

Monroe Street Sidewalk	$ 50,000
Deer Hill Road Subgrade Repair	100,000
Upper Happy Valley Road Improvements	450,000
St. Mary's Road, Rohrer to City limits	250,000
Reliez Station Road Bridge Maintenance	30,000
Moraga Boulevard Bridge Maintenance	80,000
Los Arabis Drive Guardrail	10,000
Mt. Diablo Boulevard, Risa to Dolores	50,000
Reliez Valley Road Retaining Wall	200,000
Via Roble Stabilization	200,000
Moraga Boulevard, Victoria to Carol	230,000
Happy Valley Road Stabilization, Upper Happy Valley Road to City	600,000
Moraga Boulevard, First Street to Fourth Street	825,000
Sweet Drive Slide Repair	125,000
Beechwood Drive Slide Repair	375,000
Los Palos Drive Storm Drain	175,000
Camino Colorados Storm Drain	200,000
Lafayette Creek Stabilization	100,000
Marianne Drive and Valente Drive	50,000
Glenside Drive Storm Drain	150,000
Sweet Drive Storm Drain	350,000
Hawthorn Drive/Beechwood Drive Storm Drain	400,000
Hope Lane Storm Drain	170,000
Happy Valley Road Storm Drain at Valley View	175,000
North Peardale Drive Storm Drain	120,000
Happy Valley Storm Drain at Palo Alto Drive	250,000
Katherine Lane Storm Drain	50,000
Upper Happy Valley Road Storm Drain	135,000
Total:	$5,900,000

PAVEMENT MANAGEMENT

UNDERSTANDING NETWORK LEVEL

VS.

PROJECT LEVEL INFORMATION

By

Steven E. Roberts, P.E.
Associate

HARRIS & ASSOCIATES
Concord, California

Date of Presentation: Monday, September 10, 1990 at 11:20 A.M.

Attachment 4

PAVEMENT MANAGEMENT
UNDERSTANDING NETWORK LEVEL VS. PROJECT LEVEL INFORMATION

"Pavement Management" was a buzz word of the 80's. It has become a reality of the 90's as we see the Federal Highway Administration (FHWA) mandate that every State must have an operational Pavement Management System by January 13, 1993 to be eligible for Federal-Aid funding. In California, Assembly Bill 471 has established a City, County, and State Cooperation Committee to develop guidelines for requiring local agencies (Cities and Counties) to have operational Pavement Management Systems to qualify for State Transportation Improvement Program (STIP) funding.

We've learned a lot about Pavement Management (P.M.) Systems over the last 15 years, such as:

* Microcomputers allow us to store, analyze, and manipulate tremendous amounts of information about our street systems.

* P.M. system printouts are great, but verify "real life" pavement conditions in the field.

* Public officials are persuaded by quantified information.

* Data collection and data input are a significant effort.

* Most P.M. systems are reasonably easy to learn and maintain.

* Keeping the system up-to-date is essential

* P.M. systems help us save money.

Although there are a variety of Pavement Management Systems on the market today, all P.M. systems operate on two primary levels; the **NETWORK LEVEL** and the **PROJECT LEVEL**. Even though many agencies have been actively involved with Pavement Management Systems for years, there is still some confusion about the relationship of these two levels. It is important to understand that each level plays a vital role in the process we call "Pavement Management". The **NETWORK LEVEL** provides key information regarding budgeting, future planning, coordination with utilities, and political support. The **PROJECT LEVEL** is the "nitty gritty" process of getting the work done including selection of final projects, matching budgets, soils and pavement testing, design, and the preparation of bid documents.

THE NETWORK LEVEL

The network level can be summarized in the following eight (8) basic blocks of activities:

1. Understanding the basic P.M. system principles

2. Establishing the database

3. Selecting acceptable treatments

4. Selecting appropriate treatment life cycles

5. Budget Forecasting

6. Priority setting

7. Selecting Initial Programs

8. Implementation

1. <u>UNDERSTANDING THE BASIC P.M. SYSTEM PRINCIPLES</u>

The network level begins with understanding the basic principles of pavement management and the basic properties of asphalt pavement.

It's not likely that you can persuade your public officials about the benefits of a P.M. system unless you fully understand them yourself. Like most systems, pavement management has its values and its limitations. The following definition is provided by the FHWA Federal-Aid Highway Program Manual;

"PAVEMENT MANAGEMENT SYSTEM" - a <u>set of tools</u> that <u>assist decisionmakers</u> in finding <u>cost-effective strategies</u> for providing, evaluating and maintaining pavements in an <u>acceptable serviceable condition</u>."

This definition provides us with these four (4) important concepts:

(1) Pavement Management is a "<u>tool</u>", not an exact science. It's a management tool that provides a systematic approach to maintaining a street system. It's a very useful guideline for getting real work done.

(2) P.M. systems "**assist decisionmakers**". They do not make decisions. P.M. systems give valuable information from which managers make decisions based on good engineering and good economic judgement.

(3) P.M. systems provide "**cost-effective strategies**". The primary intent of a PM System is to choose the "best" surface treatment at the right time or, in other words, to get the most "bang for your buck".

(4) An "**acceptable serviceable condition**" is a subjective issue. Ride quality that is acceptable in one jurisdiction can be totally unacceptable in another. The street manager needs to determine the acceptable standards within his agency. This may vary widely within the jurisdiction. For example, there may be one standard for arterials and another for residential streets; one standard for improved roads and another for rural roads.

Keep in mind that there is no magic about asphalt pavement. The use of bituminous materials for street pavements has been around since 1876 when the first sheet asphalt pavement was laid in Washington D.C. By 1902, the annual asphalt tonnage increased to 20,000 tons. The total asphalt tonnage produced in 1989 was approximately One Hundred Million tons.

During that time, we have compiled a lot of empirical data about how asphalts behave. Unfortunately, the way asphalts behave work against us as managers.

Figure 1 shows the standard asphalt life cycle curve developed by the Asphalt Institute. As you can see, a properly constructed pavement has an expected service life of approximately 20 to 25 years if no maintenance is performed. Even with no maintenance, an asphalt pavement looks relatively good during the first 75 percent

TYPICAL PAVEMENT LIFE CYCLE

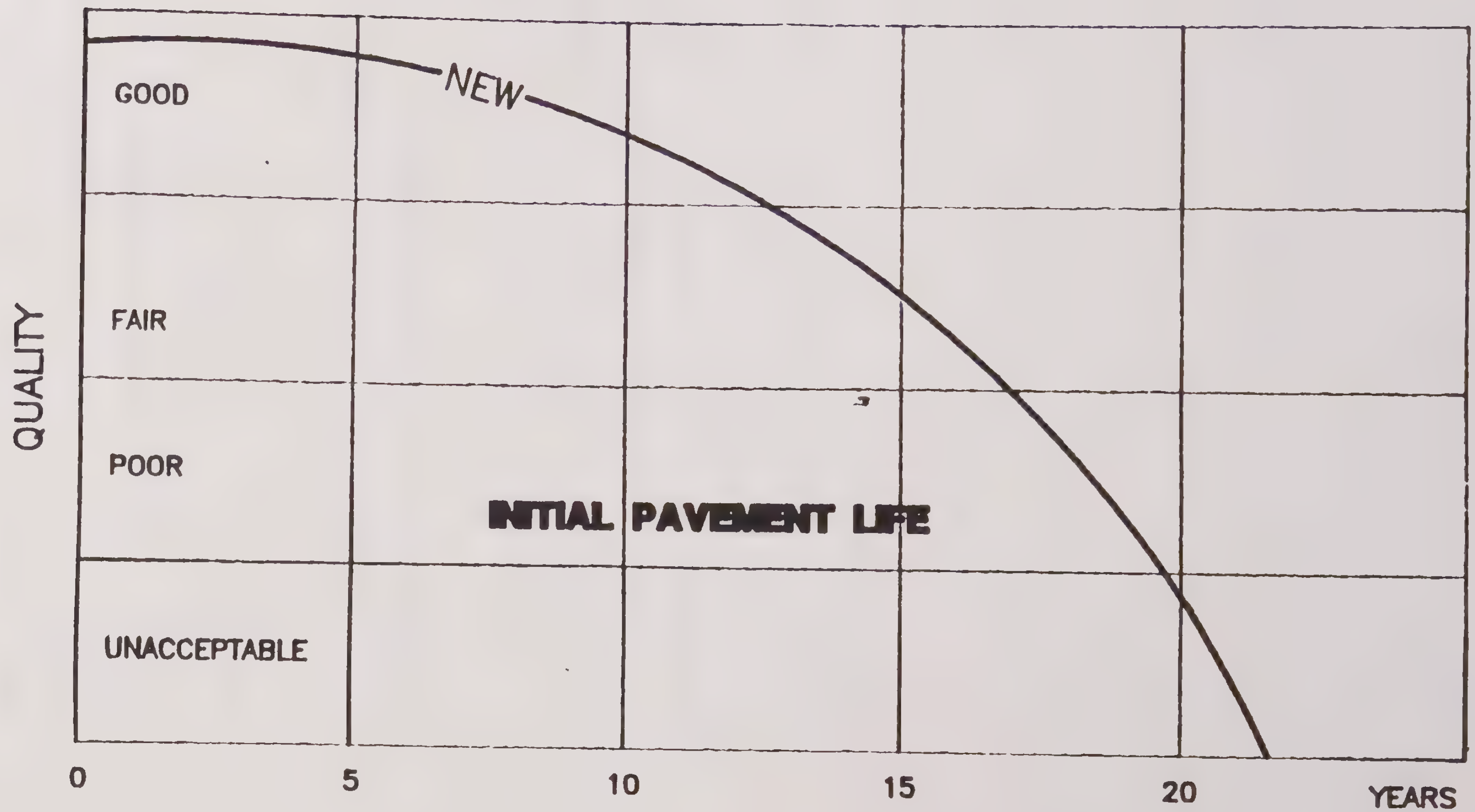

FIGURE 1

of its life cycle. However, when it fails, it fails dramatically and rapidly. The typical political attitude of not wanting to spend money on something that looks good makes it very difficult for street managers to get the needed funds for timely maintenance. But if you don't fix a street while it's in good condition, it will accelerate quickly to a major rehabilitation project. Timely maintenance is essential. This point needs to be made clearer to the people who control the budgets in our communities.

As seen in Figure 2, it's "pay me now" or "pay me later", and "pay me now" is substantially more cost effective than "pay me later".

Figure 3 shows a typical pavement cycle with accurately timed preventative maintenance treatments. This means treating pavements when they look "good". By applying appropriate preventative maintenance strategies at critical points during the life cycle, significant gains in pavement life can be achieved. It is important to note that a pavement management system does not prevent the inevitable need for pavement reconstruction. It will, however, greatly extend the time until a costly reconstruction is needed.

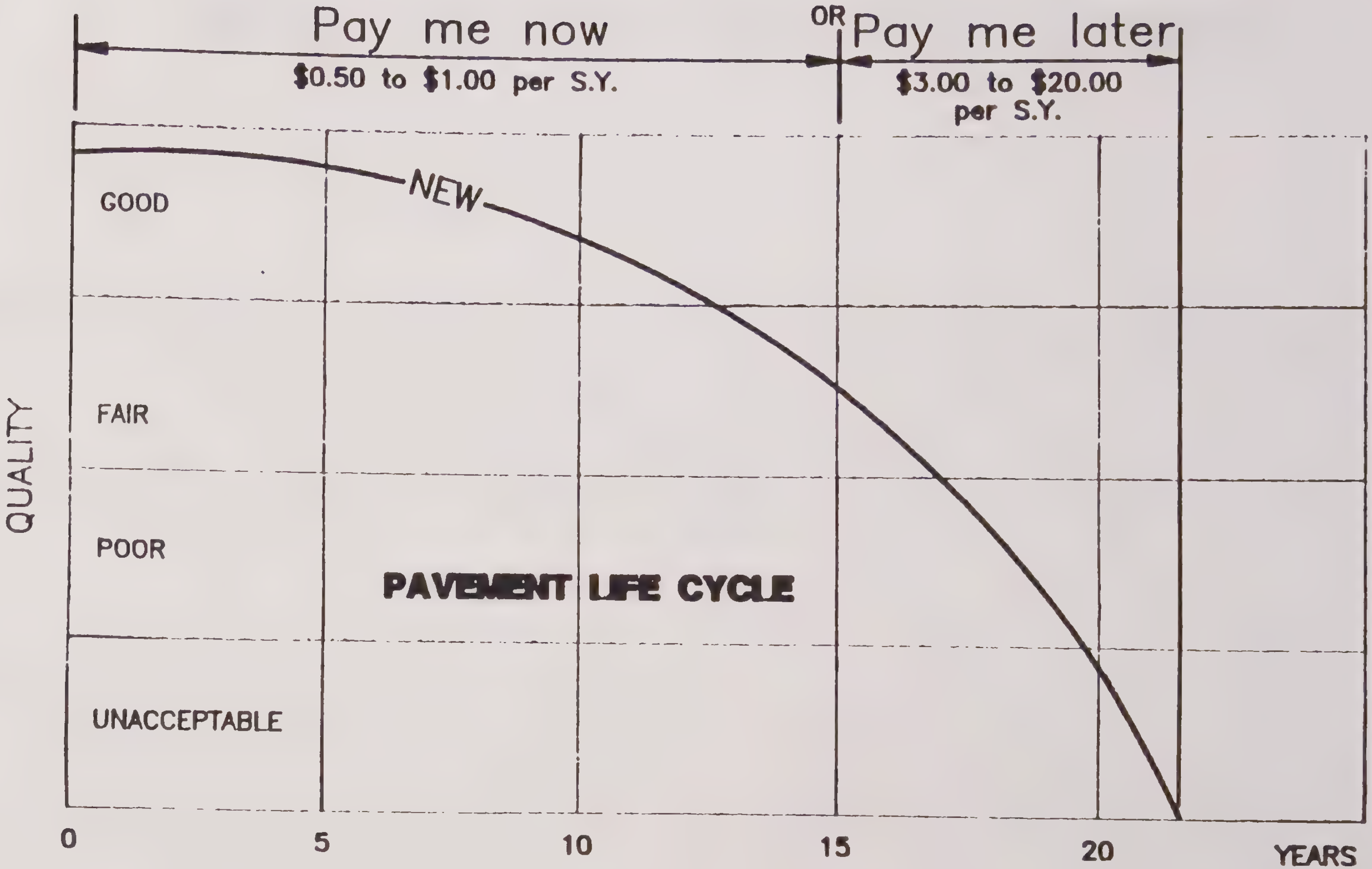
Pay me now
OR
Pay me later
$0.50 to $1.00 per S.Y.
$3.00 to $20.00
per S.Y.
NEW
GOOD
FAIR
POOR
UNACCEPTABLE
QUALITY
PAVEMENT LIFE CYCLE
0
5
10
15
20
YEARS

FIGURE 2

Appendix 3
Expenditure Control Budgets

Reinventing Government

How the Entrepreneurial Spirit is Transforming the Public Sector

David Osborne
and
Ted Gaebler

A William Patrick Book

Addison-Wesley Publishing Company, Inc.

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CREATING A MISSION-DRIVEN BUDGET SYSTEM

Government's rules are aggregated into systems—budget systems, personnel systems, purchasing systems, accounting systems. The real payoff comes when governments deregulate these systems, because they create the basic incentives that drive employees. If leaders tell their employees to focus on their mission, but the budget and personnel systems tell them to follow the rules and spend within the line items, the employees will listen to the systems. The leaders' mission will vanish like a mirage.

Few people outside government pay any attention to budget systems. But budgets control everything an agency does. They are onerous and omnipresent, useless and demeaning. They suck enormous quantities of time away from real work. They trap managers in yesterday's priorities, which quickly become tomorrow's waste.

At the root of these problems lies a villain. Most public budgets fence agency money into dozens of separate accounts, called line items. This was originally done to control the bureaucrats—to hem them in on all sides, so they could not spend one penny more than the council or legislature mandated on each item of government. But once again, our attempt to prevent bad management made good management impossible.

If you started a business, you would ask your bookkeeper to track how much you spent on travel, supplies, personnel, and so on. But you surely wouldn't let the bookkeeper control how much you spent under each account. The same is true of family budgets: you may set aside so much for groceries, so much for the mortgage, and so much for car payments every month. But

if the washing machine breaks, you find the money to fix it, and if manufacturers offer rebates on new cars, you seize the opportunity.

Public managers cannot do this. Their funds are fenced within line items that are often absurdly narrow. In one branch of the military, base managers have 26 different accounts for housing repairs alone! A typical manager of a city department has 30–40 line items for every program or division. In most cities and many states, legislatures not only dictate line items, they tell each unit how many full-time employees it can have.

Theoretically, a manager can request permission from the finance office or the legislature to move funds across the fences. But this is risky, because more often than not the answer is: "We're glad to know you don't need so much in this account, and we'll take back the surplus. But we're sorry, money's tight, we can't let you move it to the other account."

As a consequence, managers usually stick with the line items they have. This creates incredibly perverse consequences. At one military base, one housing area had no sidewalks. The commander had no line item to build sidewalks, but he did have an account to repair them. So he repaired the sidewalks in the other two areas, but left residents of the third to walk in the mud. In welfare departments, money for job training, job placement, and the like is in separate line items from welfare grant money. Spending more on training and placement normally saves money on welfare grants. But when times get tight, states cut their training and placement accounts. The welfare account—which is an entitlement, driven by the number of people who apply for welfare—then skyrockets.

By fencing money into line items, in other words, we waste billions of dollars every year.

But it gets worse. As we explained in the Introduction, if managers do not spend their entire budgets by the end of the fiscal year, they lose the money they have saved and they get less next year. Most public managers know where they could trim 10 to 15 percent of their budget. But why go through the pain of transferring or laying people off, if you can't use the money for something more important? Especially if your savings are going to be handed to some other manager who overspent his budget! Who in their right mind would save any money, under these circumstances?

Smart public managers spend every penny of every line item, whether they need to or not. This explains why public organizations get so bloated: *our budget systems actually encourage every public manager to waste money.*

Fairfield's Expenditure Control Budget

In 1979, the northern California city of Fairfield invented a solution. As is so often the case, it sprang from the mind of an outsider, who was unencumbered by the knowledge that "it's always been done this way." Fairfield's assistant finance director was an immigrant from the Philippines, where he had been a banker. He could not believe how Fairfield budgeted. He suggested to City Manager Gale Wilson that Fairfield budget the way his bank did in the Philippines, roughly the way a family budgets: it sets up accounts for various major expenditures, but if something breaks down or an opportunity comes along, it shifts money from one account to another.

Wilson understood the argument but doubted that the city council would accept it. Then, in 1978, Proposition 13 put a drastic hole in Fairfield's budget. Now, Wilson decided, he could get permission to change. He proposed a general fund budget that eliminated line items and allowed departments to keep what they didn't spend. Each department's budget was determined by a formula: it got the same amount as last year, increased to account for inflation and growth in the city's population. (The city manager could adjust these amounts, and when revenues fell short and the city council failed to act, an automatic across-the-board cut kicked in.)

The new system assumed that departments would maintain the same level and mix of services, at a minimum. If the council wanted a major new initiative, it would appropriate additional money. Managers still used line items to track their expenditures, but the council never saw them or voted on them. They

became an accounting device to help managers, not a control device to hem them in.

Ted Gaebler, who convinced Visalia to adopt the system six months later, suggested to Wilson that the idea would spread faster if they gave it a politically appealing name. So they called it the Expenditure Control Budget.

The new system transformed the way managers thought about their money. In the past, if the police chief needed more officers, he asked for more money. If the manager or city council said no, he blamed them. It was never his fault. No one expected him to comb through the budget he already had, to find savings.

Now the dynamics changed. "Spend it or lose it" gave way to "save it and invest it." The contrast was glaring. Chuck Huchel, chief of public safety, saw it every day. His city budget came the new way, but his police department hustled a fair number of federal grants, which came the old way. "It's amazing," he said, "the same people behave differently with the two streams of money:

> *With the federal grants, we prepare a budget in advance, and we put on all the bells and whistles, all the frills—we try to anticipate everything we might need. When we get an authorization, we spend everything that's on the list, whether we need to or not. People don't say, "Oh I can save some money here, or I can use it another way now," because it's in the plan. You don't have incentives to make the cost savings, because if you don't spend it you give it back.*
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> *With the city money, they know that any savings they make can be applied to other programs or other equipment. So you say, "Hey, I don't actually need this to make the program work, so I'm not going to spend it." Plus they get creative about saving money. We needed a weather covering over a gas pump, to protect people from the rain when they were gassing up their vehicles. The architectural design to make it like a gas station came to around $30,000. We thought that was outrageous. So somebody said, "What about these bus stop covers—the glass-enclosed ones?" We checked, and they cost $2,500. We put one of those up, and it works fine.*

The results speak for themselves. By 1981, California had named Fairfield one of its four most fiscally sound cities. By 1991, the city's departments had spent $6.1 million less than they were appropriated. The General Fund, then $30.2 million, had spent $28.8 million less than its revenues. This allowed the city to take care of several unfunded liabilities, to salt away an unrestricted reserve as a hedge against recession, and to build a $20 million Intergovernmental Service Loan Fund, which makes start-up loans to new capital projects, such as a theater and a sports complex.

The new budget system also proved itself when sales and property tax revenues plummeted during the 1991 recession. First the city decided to draw down half of its $10 million in reserves over the next three years, to limit the spending cuts required. When the state then transferred several revenue sources to the counties—deepening the city's fiscal hole—Fairfield simply changed its budget formula for the next three years. From July 1, 1991, through June 30, 1994, departments will receive no increase for inflation or population growth.

"When I came here from Sacramento, my instinctive reaction was that this system was crazy," said Finance Director Bob Leland, who previously worked in the state finance office. "It was totally alien to what I had experienced. But I got converted in a hurry. I wouldn't trade it now."

Over the past 10 years, perhaps a dozen other cities have adopted the Expenditure Control Budget, including Scotts Valley, Kingsburg, and Porterville, in California; Chandler, Arizona; and Las Vegas, New Mexico. Dade County, Florida, uses a similar system, which it calls Operational Budgeting. Other cities have dropped their line items without allowing departments to keep any of their savings. At the state level, Arizona got rid of line items for several years under Governor Bruce Babbitt, with great success. And other states use

lump-sum budgets—or few line items—in some agencies and departments.

Even the Defense Department has experimented with mission-driven budgeting, as we explained in the Introduction to this book. After he read about Visalia's use of the Expenditure Control Budget, Bob Stone developed his Unified Budget Test, which allowed six bases to swap money between line items and one of the six to keep its savings. Eight air force bases still use a unified budget, and the army has reduced or eliminated many of its budget restrictions. (Unfortunately, base commanders in both branches are still subject to the spend-it-or-lose-it rule.) A few other federal agencies, including the U.S. Forest Service and the Bureau of Indian Affairs, have also moved toward unified budgets.

The shift is under way even in other nations. Sweden, Canada, Britain, Denmark, and Australia now budget by broad policy categories, and Canada allows those in charge of each category—called an "envelope"—to keep and reuse their savings.

The Strengths of Mission-Driven Budgeting

Fundamentally, the Expenditure Control Budget empowers organizations to pursue their missions, unencumbered by yesterday's spending categories. That is why we call it a mission-driven budget. Its advantages are overwhelming:

Mission-driven budgets give every employee an incentive to save money. Everyone begins to look at things differently: Do we really need the air conditioning on all day? Could we find a better deal on word processors? In Visalia, when the mechanics decided they needed better tools, even they began to search for savings. For years, one of the shop's heaters had blown hot air outdoors. It had been a standing joke. Now they shut it off, repaired several other heaters, and cut small doors in the shop's huge vehicle doors, so they could close them during the winter. Within 18 months, they had reduced energy consumption by 30 percent. They used the savings to buy new tools.

Mission-driven budgets free up resources to test new ideas. Peters and Waterman note that entrepreneurial managers constantly bootleg resources—"squirreling away a little bit of money, a little bit of manpower"—to carry on new experiments. Mission-driven budgets give public managers the capacity to do that.

Mission-driven budgets give managers the autonomy they need to respond to changing circumstances. Line item budgets trap resources into old patterns. In Fairfield and Visalia, managers constantly shift their resources to meet new needs and phase out obsolete activities. This autonomy not only fosters responsive government, it builds morale and unleashes creativity.

Mission-driven budgets create a predictable environment. Managers know what their budget will be six months before the fiscal year begins. They don't spend months sweating over a budget, negotiating with the finance department, carefully balancing three dozen accounts—only to watch part-time legislators who know nothing about their area cut it up at the last minute, on a political whim. Nothing is more frustrating to a public servant. Nothing creates more cynicism within the ranks.

Mission-driven budgets simplify the budget process enormously. For people inside government, budget season is six months of hell. In traditional systems, managers come up with their wish lists six to eight months ahead of time, to submit to the finance office. (In the Department of Defense, they submit requests *three years* ahead.) The finance department spends months whacking away at their wish lists. Finally, it sends a mammoth budget to the council or legislature. (The 1990 federal budget was 1,376 pages long. San Francisco's is literally two feet thick. Visalia's is *two pages* long.) Legislative committees then pore over thousands of line items to make their own cuts and additions.

After months of toil and turmoil—in which legislators have to say yes or no hundreds of separate times to dozens of powerful interest groups—a budget finally emerges. Then, within weeks, the departments begin submitting budget amendments to cover unanticipated expenses—eating up more legislative

time. "Here [in Fairfield] it's sort of magical," says Leland. "You tell people what they've got, and they stay within it. They manage for the long haul."

Mission-driven budgets save millions of dollars on auditors and budget officers. No one has to spend months whacking away at departmental budget requests. No one has to spend all year checking to see that managers don't overspend any of their line items. Fairfield has just one budget analyst in its finance department.

Finally, mission-driven budgets free legislatures to focus on the important issues. It is a truism in government that the amount of money in a line item is inversely related to the amount of time the legislature spends debating it. Legislators, city council members, and school board members are often lawyers or small-business people. They're familiar with decisions about buying computers and hiring secretaries. They feel useful when they can help make such decisions. But nothing has prepared them to deal with the larger policy issues: AIDS, or crime, or poor schools. So they feel less comfortable in that arena.

Mission-driven budgets relieve legislators of micromanagement decisions, freeing them to focus on the larger problems they were elected to solve. Once they have that luxury, they usually learn to enjoy it. Of all the city councils that have adopted the Expenditure Control Budget, we've never found one that would go back.